



COUNCIL CHAMBERS  
17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

**COUNCIL MEMBERS**

Dennis Kennedy, Mayor  
Mark Grzan, Mayor Pro Tempore  
Larry Carr, Council Member  
Greg Sellers, Council Member  
Steve Tate, Council Member

**REDEVELOPMENT AGENCY**

Dennis Kennedy, Chair  
Mark Grzan, Vice-Chair  
Larry Carr, Agency Member  
Greg Sellers, Agency Member  
Steve Tate, Agency Member

**WEDNESDAY, AUGUST 23, 2006**

**AGENDA**

**JOINT MEETING**

**CITY COUNCIL REGULAR MEETING**

**and**

**REDEVELOPMENT AGENCY REGULAR MEETING**

**7:00 P.M.**

**CALL TO ORDER**

(Mayor/Chairperson Kennedy)

**ROLL CALL ATTENDANCE**

(City Clerk/Agency Secretary Torrez)

**DECLARATION OF POSTING OF AGENDA**

**Per Government Code 54954.2**

(City Clerk/Agency Secretary Torrez)

**SILENT INVOCATION**

**PLEDGE OF ALLEGIANCE**

**PROCLAMATIONS**

**RECOGNITION**

Animal Control Officer

*Daniel Pina*

**CITY COUNCIL REPORT**

Council Member Sellers

**CITY COUNCIL COMMITTEE REPORTS**

**CITY MANAGER'S REPORT**

**CITY ATTORNEY'S REPORT**

**OTHER REPORTS**

Financial Policy Committee Quarterly Report  
*City Treasurer Roorda*

**PUBLIC COMMENT**

**NOW IS THE TIME FOR COMMENTS FROM THE PUBLIC REGARDING ITEMS NOT ON THIS AGENDA.**

(See notice attached to the end of this agenda.)

**PUBLIC COMMENTS ON ITEMS APPEARING ON THIS AGENDA WILL BE TAKEN AT THE TIME  
THE ITEM IS ADDRESSED BY THE COUNCIL. PLEASE COMPLETE A SPEAKER CARD AND  
PRESENT IT TO THE CITY CLERK.**

(See notice attached to the end of this agenda.)

**PLEASE SUBMIT WRITTEN CORRESPONDENCE TO THE CITY CLERK/AGENCY SECRETARY. THE  
CITY CLERK/AGENCY SECRETARY WILL FORWARD CORRESPONDENCE TO THE CITY  
COUNCIL/REDEVELOPMENT AGENCY.**

## ***City Council and Redevelopment Agency Action***

**ADOPTION OF AGENDA**

## ***City Council Action***

**CONSENT CALENDAR:**

**ITEMS 1-21**

The Consent Calendar may be acted upon with one motion, a second and the vote, by each respective Agency. The Consent Calendar items are of a routine or generally uncontested nature and may be acted upon with one motion. Pursuant to Section 5.1 of the City Council Rules of Conduct, any member of the Council or public may request to have an item pulled from the Consent Calendar to be acted upon individually.

**Time Estimate**

**Page**

**Consent Calendar: 1 - 10 Minutes**

- 1. JUNE 2006 FINAL FINANCE AND INVESTMENT REPORT ..... 9**  
**Recommended Action(s): Accept and File Report.**

|     |   |             |
|-----|---|-------------|
|     | <b>Time Estimate</b>  | <b>Page</b> |
|     | <b>Consent Calendar: 1 - 10 Minutes</b>   |             |
| 2.  | <b><u>JULY 2006 FINANCE AND INVESTMENT REPORT</u></b> .....   | 35          |
|     | <b>Recommended Action(s):</b> <u>Accept</u> and <u>File</u> Report.   |             |
| 3.  | <b><u>APPROVE SPECIAL CITY COUNCIL MEETING MINUTES FOR JULY 26, 2006</u></b> .....  | 44          |
| 4.  | <b><u>CALTRAIN POLICY ADVISORY BOARD APPOINTMENT</u></b> .....  | 46          |
|     | <b>Recommended Action(s):</b> <u>Confirm</u> the Mayor's Appointment of Council Member Carr to the Caltrain Policy Advisory Board.  |             |
| 5.  | <b><u>RESIGNATION OF A SENIOR ADVISORY COMMISSIONER</u></b> .....   | 47          |
|     | <b>Recommended Action(s):</b>   |             |
|     | 1. <u>Accept</u> Staten Johnston's Resignation from the Senior Advisory Commission; and   |             |
|     | 2. <u>Direct</u> the City Clerk to Commence Recruitment Efforts to Fill the Vacancy.  |             |
| 6.  | <b><u>DOG PARK FUNDING REQUEST</u></b> .....  | 48          |
|     | <b>Recommended Action(s):</b>   |             |
|     | 1. <u>Approve</u> Parks and Recreation Commission Recommendation to Appropriate \$20,000 from the Park Development Fund to Partially Finance the Construction of the Off-Leash Dog Park Improvements; and   |             |
|     | 2. <u>Increase</u> Appropriation from Park Impact Fund by \$20,000.   |             |
| 7.  | <b><u>POLICY REGARDING TENTATIVE SUBDIVISION MAP APPROVAL PRIOR TO THE AWARD OF BUILDING ALLOCATIONS THROUGH THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM</u></b> .....   | 49          |
|     | <b>Recommended Action(s):</b> <u>Adopt</u> Policy.  |             |
| 8.  | <b><u>NEW LIBRARY PROJECT – JULY CONSTRUCTION PROGRESS REPORT</u></b> .....   | 50          |
|     | <b>Recommended Action(s):</b> <u>Information</u> Only.  |             |
| 9.  | <b><u>CENTENNIAL RECREATION CENTER PROJECT - JULY CONSTRUCTION PROGRESS REPORT</u></b> .....  | 51          |
|     | <b>Recommended Action(s):</b> <u>Information</u> Only.  |             |
| 10. | <b><u>RESPONSE TO SANTA CLARA COUNTY GRAND JURY REPORT “REDUCING LANGUAGE BARRIERS IN DOMESTIC VIOLENCE CALLS”</u></b> .....  | 52          |
|     | <b>Recommended Action(s):</b> <u>Direct</u> Staff to Provide the Responses Described to the 2005-2006 Santa Clara County Grand Jury.  |             |
| 11. | <b><u>AUTHORIZE CITY MANAGER TO EXECUTE SUPPLEMENTAL AGREEMENT FOR RECEIVING FEDERAL SURFACE TRANSPORTATION PROGRAM FUNDING FOR 2006-2007 PAVEMENT RESURFACING PROJECT</u></b> .....  | 53          |
|     | <b>Recommended Action(s):</b> <u>Adopt</u> Resolution Authorizing the City Manager to Execute Supplemental Agreement No. 008-M with the State Department of Transportation to Receive Federal Funding for the 2006-2007 Pavement Resurfacing Project. |             |

|     | Time Estimate  | Page |
|-----|--|------|
|     | Consent Calendar: 1 - 10 Minutes   |      |
| 12. | <u><a href="#">QUITCLAIM A PORTION OF DIANA AVENUE (APN 726-07-079)</a></u> .....  | 56   |
|     | <b>Recommended Action(s):</b>  |      |
|     | 1. <b>Authorize</b> the City Manager to Execute the Quitclaim Deed Releasing the City's Interest in Apportion of Diana Avenue Previously Vacated by the City; and  |      |
|     | 2. <b>Direct</b> the City Clerk to File a Certified Copy of the Quitclaim Deed in the Office of the Recorder of Santa Clara County.  |      |
| 13. | <u><a href="#">AWARD OF PROFESSIONAL SERVICES CONTRACT FOR CONSTRUCTION STAKING FOR DEPOT STREET RECONSTRUCTION PROJECT</a></u> .....  | 56   |
|     | <b>Recommended Action(s):</b> <b>Authorize</b> the City Manager to Execute a Consultant Agreement with BKF Engineers in the Amount of \$38,046 for Construction Staking for the Depot Street Reconstruction Project, Subject to Review and Approval by the City Attorney.  |      |
| 14. | <u><a href="#">AWARD PROFESSIONAL SERVICES CONTRACT FOR DESIGN OF MISSION VIEW WELL SITE PROJECT</a></u> .....   | 57   |
|     | <b>Recommended Action(s):</b> <b>Authorize</b> the City Manager to Execute an Agreement with Luhdorff & Scalmanini for the Design of a Test Well and Preparation of Plans and Specifications for Mission View Well in the Amount of \$60,500; Subject to Review and Approval by the City Attorney.   |      |
| 15. | <u><a href="#">RESOLUTION FOR FUNDING FROM THE URBAN FORESTRY GRANT PROGRAM ENTITLED "GREEN TREES FOR THE GOLDEN STATE"</a></u> .....  | 58   |
|     | <b>Recommended Action(s):</b> <b>Approve</b> Resolution to Authorize Public Works to File an Application for "Proposition 12" Tree Planting Grant Program Funds for the Purpose of Planting 100 Native Oak Trees in Morgan Hill Parks and Medians.   |      |
| 16. | <u><a href="#">CALIFORNIA CONSERVATION CORPS AGREEMENT FOR VEGETATION ABATEMENT IN STORM CHANNELS, MEDIANS, AND PARKS</a></u> .....  | 61   |
|     | <b>Recommended Action(s):</b> <b>Authorize</b> the City Manager to Enter into an Agreement with the California Conservation Corps for Vegetation Abatement in Storm Channels, Medians, and Parks Throughout the City; Subject to Review and Approval by the City Attorney. The Term of the Agreement is for Fiscal Year 2006-2007 in the Amount of \$15,000. |      |
| 17. | <u><a href="#">ACCEPT THE SECOND STREET WATER MAIN REPLACEMENT PROJECT</a></u> .....   | 62   |
|     | <b>Recommended Action(s):</b>  |      |
|     | 1. <b>Accept</b> as Complete the Second Street Water Main Replacement in the Final Amount of \$160,306.64; and   |      |
|     | 2. <b>Direct</b> the City Clerk to File the Notice of Completion with the Santa Clara County Recorder's Office.  |      |
| 18. | <u><a href="#">APPROVAL OF PAYMENT TO SANTA CLARA COUNTY FOR VEGETATION ABATEMENT ON CITY-OWNED PROPERTY</a></u> .....   | 654  |
|     | <b>Recommended Action(s):</b> <b>Approve</b> Payment in the Amount of \$49,729.42 for Vegetation Abatement for Fiscal Year 2005-2006.  |      |
| 19. | <u><a href="#">ADOPTION OF RESOLUTION AMENDING 2005 SPEED SURVEY</a></u> .....   | 65   |
|     | <b>Recommended Action(s):</b> <b>Adopt</b> Resolution Amending Resolution No. 5944 which established Designated Speed Limits on City Streets.  |      |
| 20. | <u><a href="#">RESIDENTIAL DEVELOPMENT CONTROL SYSTEM (RDACS) 2006 QUARTERLY REPORT # 2</a></u> ....   | 767  |
|     | <b>Recommended Action(s):</b> <b>Accept</b> and <b>File</b> the RDACS Second Quarter Report for 2006.  |      |

**Time Estimate**

**Page**

**Consent Calendar: 1 - 10 Minutes**

21. [\*\*ADOPT ORDINANCE NO. 1789, NEW SERIES\*\*](#) .....68  
**Recommended Action(s):** Waive the Reading, and Adopt Ordinance No. 1789, New Series, and Declare That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING TITLE 18, THE ZONING CODE UNDER CHAPTER 18.47, THE DENSITY BONUS AND INCENTIVES CHAPTER AND CHAPTER 18.55, THE SECONDARY DWELLING UNIT CHAPTER TO COMPLY WITH THE CALIFORNIA GOVERNMENT CODE (APPLICATION ZA-06-07).**

## ***Redevelopment Agency Action***

### **CONSENT CALENDAR:**

#### **ITEMS 22-23**

**Time Estimate**

**Page**

**Consent Calendar: 1 - 10 Minutes**

22. [\*\*JULY 2006 FINANCE AND INVESTMENT REPORT\*\*](#) .....76  
**Recommended Action(s):** Accept and File Report.
23. [\*\*URBAN HOUSING COMMUNITIES \(UHC\) SENIOR HOUSING PROJECT\*\*](#) .....85  
**Recommended Action(s):** Authorize the Executive Director to do Everything Necessary and Appropriate to: 1) Purchase/Acquire a 2.77 Acre Site at 98 East Central Avenue from Capogeannis Trust for \$3,725,000, Less UHC Deposits of \$75,000, Plus Closing/Escrow Costs Intended for Development as Affordable Housing 2) Accept Assignment of Purchase Agreement for the site form UHC and 3) Execute an Exclusive Right to Negotiate (ERN) Agreement Providing a 12 Month Period to Negotiate a Possible Disposition and Development Agreement with UHC to Develop this Site.

## ***City Council and Redevelopment Agency Action***

### **CONSENT CALENDAR:**

#### **ITEMS 24-25**

**Time Estimate**

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**Consent Calendar: 1 - 10 Minutes**

24. [\*\*APPROVE JOINT SPECIAL AND REGULAR CITY COUNCIL AND REGULAR REDEVELOPMENT AGENCY MEETING MINUTES FOR JULY 19, 2006\*\*](#) .....86
25. [\*\*APPROVE JOINT SPECIAL AND REGULAR CITY COUNCIL AND SPECIAL AND REGULAR REDEVELOPMENT AGENCY MEETING MINUTES FOR JULY 26, 2006\*\*](#) .....108

## ***Redevelopment Agency Action***

### **OTHER BUSINESS:**

|     | <b>Time Estimate</b> |  | <b>Page</b> |
|-----|----------------------|--|-------------|
| 26. | 7 Minutes            | <b><u>LEADERSHIP MORGAN HILL – 2006 CLASS PROJECT</u></b> .....  | 153         |
|     |                      | <b><u>Recommended Action(s):</u></b> <b><u>Accept</u></b> Second Public Art Piece Project, Location and<br>Plaque for the New Library. |             |

## ***City Council Action***

### **PUBLIC HEARINGS:**

|     | <b>Time Estimate</b> |   | <b>Page</b> |
|-----|----------------------|---|-------------|
| 27. | 5 Minutes            | <b><u>HEARING FOR EXEMPTION TO UNDERGROUNDING UTILITIES – 16215<br/>CHURCH STREET</u></b> .....   | 154         |
|     |                      | Public Hearing Opened.<br>Please Limit Your Remarks to 3 Minutes. Public Hearing Closed<br>Council Discussion.<br>Action- <b><u>Grant</u></b> Exemption to the Requirement to Underground Utilities with<br>Payment of in Lieu Fees for the Proposed Development at 16215 Church<br>Street.   |             |
| 28. | 15 Minutes           | <b><u>ZONING AMENDMENT, ZA-05-14/DEVELOPMENT AGREEMENT, DA-05-13:<br/>JARVIS-SOUTH VALLEY DEVELOPERS</u></b> .....  | 155         |
|     |                      | Public Hearing Opened.<br>Please Limit Your Remarks to 3 Minutes. Public Hearing Closed<br>Council Discussion.<br>Action- <b><u>Adopt</u></b> Mitigated Negative Declaration and Mitigation Monitoring and<br>Reporting Program (MMRP).<br>Action- <b><u>Motion to Waive</u></b> the First and Second Reading of the Zoning Amendment<br>Ordinance.<br>Action- <b><u>Motion to Introduce</u></b> Zoning Amendment Ordinance.<br>Action- <b><u>Motion to Waive</u></b> the First and Second Reading of Development<br>Agreement Ordinance.<br>Action- <b><u>Motion to Introduce</u></b> Development Agreement Ordinance by Title Only.<br>(Roll Call Vote) |             |
| 29. | 5 Minutes            | <b><u>DEVELOPMENT AGREEMENT APPLICATION, DA-06-03: JARVIS-SOUTH<br/>COUNTY HOUSING</u></b> .....  | 164         |
|     |                      | Public Hearing Opened.<br>Please Limit Your Remarks to 3 Minutes. Public Hearing Closed<br>Council Discussion.<br>Action- <b><u>Motion to Waive</u></b> the Reading in Full of Development Agreement<br>Application Ordinance.<br>Action- <b><u>Motion to Introduce</u></b> Ordinance by Title Only. (Roll Call Vote)   |             |

## City Council Action

### **OTHER BUSINESS:**

|     | <b>Time Estimate</b> |   | <b>Page</b> |
|-----|----------------------|---|-------------|
| 30. | 20 Minutes           | <b><u>MANAGEMENT AUDIT OF DEVELOPMENT PROCESSING SERVICES</u></b> .....167<br><b><u>Recommended Action(s):</u></b><br>1. <b><u>Consider</u></b> Presentation of the Development Processing Services/Customer Service Study by Joe Colgan; and<br>2. <b><u>Direct</u></b> City Manager to Prepare an Implementation Plan for Review by the Community and Economic Development Committee and Subsequent Adoption by the Council.                              |             |
| 31. | 15 Minutes           | <b><u>UPDATE ON OLIN PERCHLORATE CONTAMINATION AND PRESENTATION TO REGIONAL WATER QUALITY CONTROL BOARD (RWQCB) AT THEIR SEPTEMBER 7, 2006 MEETING</u></b> .....199<br><b><u>Recommended Action(s):</u></b> <b><u>Consider</u></b> Staff Update and <b><u>Authorize</u></b> the City Manager to Make a Presentation to the RWQCB at Their September 7, 2006 Meeting in Monterey, Urging the Board to Hold Olin Accountable for the Northeast Contamination. |             |

### **FUTURE COUNCIL-INITIATED AGENDA ITEMS:**

Note: in accordance with Government Code Section 54954.2(a), there shall be no discussion, debate and/or action taken on any request other than providing direction to staff to place the matter of business on a future agenda.

### **ADJOURNMENT**

**PUBLIC COMMENTS ON ITEMS *NOT* APPEARING ON AGENDA**

Following the opening of Council/Agency business, the public may present comments on items *NOT* appearing on the agenda that are within the Council's/Agency's jurisdiction. Should your comments require Council/Agency action, your request will be placed on the next appropriate agenda. No Council/Agency discussion or action may be taken until your item appears on a future agenda. You may contact the City Clerk/Agency Secretary for specific time and dates. This procedure is in compliance with the California Public Meeting Law (Brown Act) G.C. 54950.5. Please limit your presentation to three (3) minutes.

**PUBLIC COMMENTS ON ITEMS APPEARING ON AGENDA**

The Morgan Hill City Council/Redevelopment Agency welcomes comments from all individuals on any agenda item being considered by the City Council/Redevelopment Agency. Please complete a Speaker Card and present it to the City Clerk/Agency Secretary. This will assist the Council/Agency Members in hearing your comments at the appropriate time. Speaker cards are available on the table in the foyer of the Council Chambers. In accordance with Government Code 54953.3 it is not a requirement to fill out a speaker card in order to speak to the Council/Agency. However, it is very helpful to the Council/Agency if speaker cards are submitted. As your name is called by the Mayor/Chairman, please walk to the podium and speak directly into the microphone. Clearly state your name and address and then proceed to comment on the agenda item. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the City Council/Agency Commission are limited to three minutes. We appreciate your cooperation.

**NOTICE**

**AMERICANS WITH DISABILITIES ACT (ADA)**

The City of Morgan Hill complies with the Americans with Disability Act (ADA) and will provide reasonable accommodation to individuals with disabilities to ensure equal access to all facilities, programs and services offered by the City. If you need special assistance to access the meeting room or to otherwise participate at this meeting, including auxiliary aids or services, please contact the Office of the City Clerk/Agency Secretary at City Hall, 17555 Peak Avenue or call 779-7259 or (Hearing Impaired only - TDD 776-7381) to request accommodation. Please make your request at least 48 hours prior to the meeting to enable staff to implement reasonable arrangements to assure accessibility to the meeting.

If assistance is needed regarding any item appearing on the City Council/Agency Commission agenda, please contact the Office of the City Clerk/Agency Secretary at City Hall, 17555 Peak Avenue or call 779-7259 or (Hearing Impaired only - TDD 776-7381) to request accommodation.

**NOTICE**

Notice is given, pursuant to Government Code Section 65009, that any challenge of Public Hearing Agenda items in court, may be limited to raising only those issues raised by you or on your behalf at the Public Hearing described in this notice, or in written correspondence delivered to the City Council/Agency Commission at, or prior to the Public Hearing on these matters.

**NOTICE**

The time within which judicial review must be sought of the action by the City Council/Agency Commission which acted upon any matter appearing on this agenda is governed by the provisions of Section 1094.6 of the California Code of Civil Procedure.





## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **JUNE 2006 FINAL FINANCE & INVESTMENT REPORT**

#### **RECOMMENDED ACTION:**

Accept and File Report

#### **EXECUTIVE SUMMARY:**

Attached is the final monthly *unaudited* Finance and Investment Report for the period ended June 30, 2006. The report covers the twelve months of activity for the 2005/2006 fiscal year. A summary of the report is included on the first page for the City Council's benefit.

The monthly Finance and Investment Report is presented to the City Council and our Citizens as part of our ongoing commitment to improve and maintain public trust through communication of our finances, budget and investments. The report also serves to provide the information necessary to determine the adequacy/stability of financial projections and develop equitable resource/revenue allocation procedures.

This report covers all fiscal activity in the City, including the Redevelopment Agency. The Redevelopment Agency receives a separate report for the fiscal activity of the Agency at the meeting of the Agency. Presenting this report is consistent with the goal of *Maintaining and Enhancing the Financial Viability of the City*.

**FISCAL IMPACT:** Resources were budgeted for the preparation of this report. The preparation will not affect the 2006/07 Finance Department work plan.

**Agenda Item # 1**

**Prepared By:**

\_\_\_\_\_  
**Finance Director**

**Submitted By:**

\_\_\_\_\_  
**City Manager**

**CITY OF MORGAN HILL**  
**Monthly Financial and Investment Reports**  
**Final June 30, 2006 – 100% Year Complete**



**CITY OF MORGAN HILL**

**Prepared by:**  
**FINANCE DEPARTMENT**



CITY OF MORGAN HILL, CALIFORNIA  
FINAL UNAUDITED FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2005/06  
FOR THE MONTH OF JUNE 2006 - 100% OF YEAR COMPLETE

This analysis of the status of the City's financial situation reflects 100% of the year. The numbers reflected in this report have not yet been audited by the City's independent auditor.

- \* **General Fund** - The revenues received in the General Fund were approximately 108% of the budgeted revenues. A total of \$5,740,492, or 117% of the budget, in property related taxes has been received by the City. Property tax receipts included \$2,331,517 in motor vehicle in-lieu backfill revenue. The amount of Sales Tax collected was 111% of the sales tax revenue budget and was 15% more than the amount collected for the same period last year. We anticipate that sales tax revenue will be adjusted slightly once final 2005/06 sales tax information is available from the State. Sales tax receipts included \$1,491,436 related to triple flip legislation and withheld from previous sales tax collections. Franchise Fee revenues amounted to 100% of the budget. Business license and other permit collections through June were 102% of the budgeted amount. Motor Vehicle-in-Lieu revenues were \$236,933, or 126% of the budgeted amount, and 7% more than last year. Interest & Other Revenue was 110% of budget.

Total revenues for the year of \$20,336,056 exceeded the amount projected in the 2006/07 budget document by a net of \$582,792. The additional revenue primarily related to three funding sources where the City received more dollars than projected:

- \$320,000 in additional Vehicle License In-Lieu Property Taxes over amount projected
- \$170,000 in additional sales taxes not anticipated
- \$150,000 in SB90 mandated cost reimbursements from State not anticipated

- \* The General Fund expenditures and encumbrances to date totaled 98% of the budgeted appropriations. Expenditures for the year were \$87,256 less than the amount projected in the 2006/07 budget document.
- \* Available fund balance as of June 30, 2006, amounted to \$10,002,777, including \$4,955,328 in required reserves. The higher revenue and lower expenditures noted above resulted in a \$48,172 operating surplus for Fiscal Year 2005/06, rather than the \$622,000 operating deficit projected in the 2006/07 budget document. The 2005/06 budget originally anticipated a \$1.3 million operating deficit.
- \* **Transient Occupancy (Hotel) Tax** - The TOT rate is 10%. The City receives TOT on a quarterly basis. Taxes through June 30 totaled \$1,029,837, or 106% of the budget, and 8% more than the prior year amount.
- \* **Community Development** - Revenues were 105% of budget, which was 17% less than the amount collected in the like period for the prior year. Planning expenditures plus encumbrances were 94% of budget; Building has expended or encumbered 95% of budget and Engineering 99%. Community Development has expended or encumbered a combined total of 96% of the 2005/06 budget, including \$195,853 in encumbrances. If encumbrances were excluded, Community Development would have spent only 91% of the combined budget.
- \* **RDA and Housing** - A total of \$25,019,610, or 104% of the budget, in property tax increment revenues has been received as of June 30, 2006. Expenditures plus encumbrances totaled \$46,964,060, or 77% of budget. If encumbrances totaling \$16,362,963 were excluded, the RDA would have spent only 50% of the combined budget.



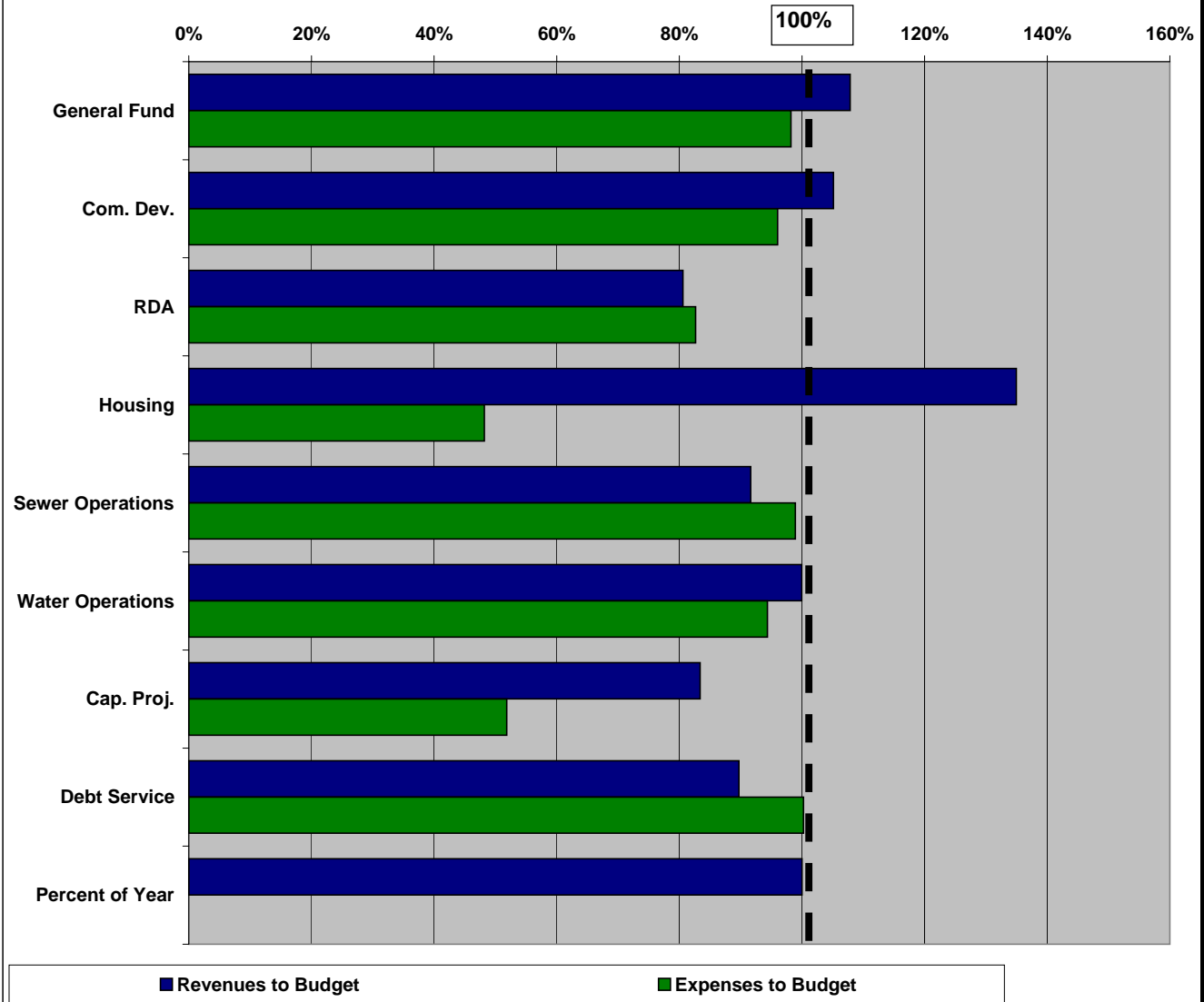
CITY OF MORGAN HILL, CALIFORNIA  
FINAL UNAUDITED FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2005/06  
FOR THE MONTH OF JUNE 2006 - 100% OF YEAR COMPLETE

- \* **Water and Wastewater Operations-** Water Operations revenues, including service fees, were 100% of budget. Expenditures totaled 94% of appropriations. Wastewater Operations revenues, including service fees, were 92% of budget. Expenditures for Wastewater Operations were 99% of budget.
- \* **Investments maturing/called/sold during this period.** – During the month of June, the City purchased \$2 million in federal agency investments and \$2 million in federal treasury investments. Further details of investments are included on pages 6-8 of this report.



# Morgan Hill YTD Revenue & Expense Summary

Final June 30, 2006 - 100% Year Complete



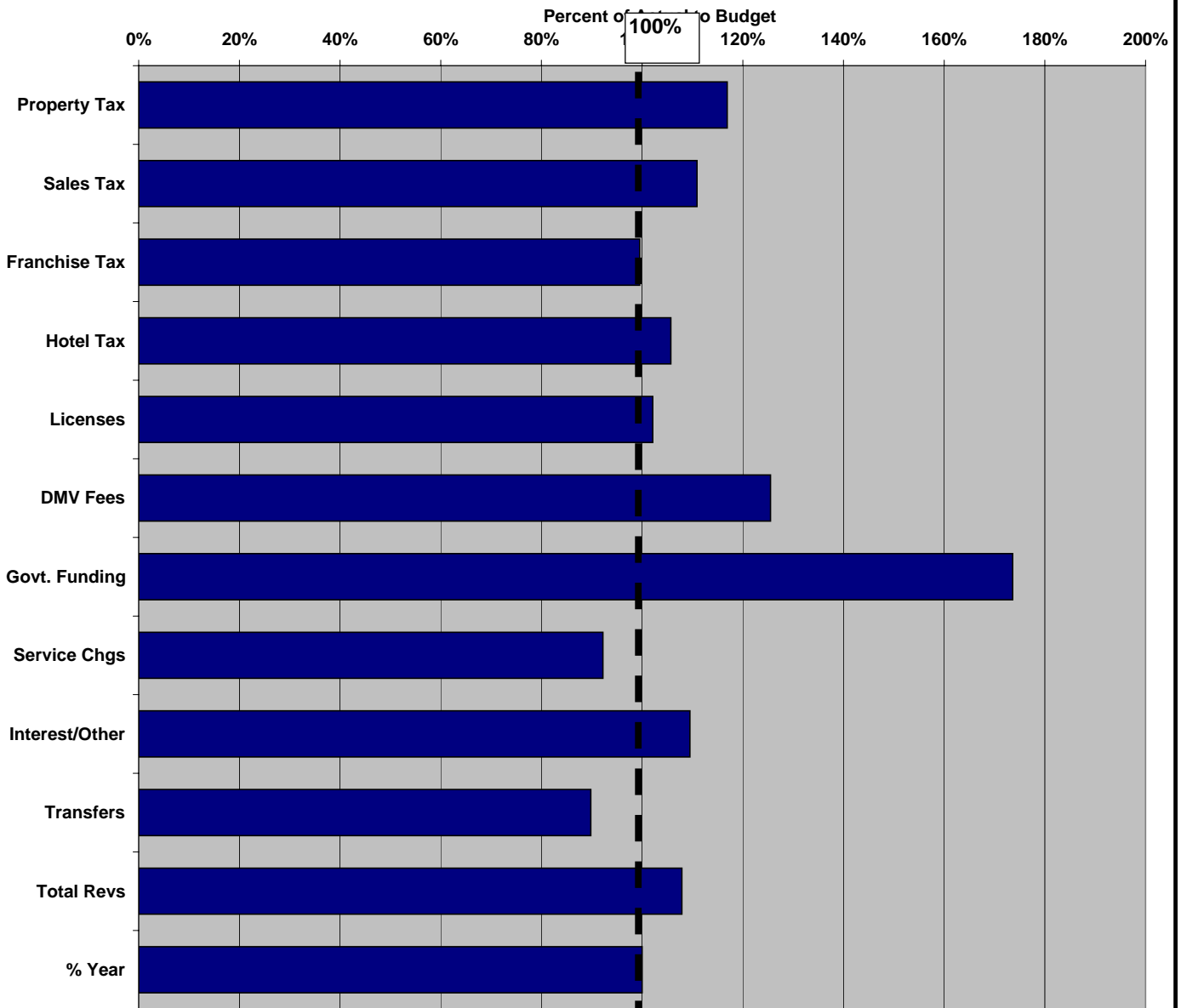
| FUND NAME                           | REVENUES            |                | EXPENSES                    |                | 06/30/2006<br>UNRESTRICTED<br>FUND BALANCE |
|-------------------------------------|---------------------|----------------|-----------------------------|----------------|--|
|                                     | ACTUAL              | % OF<br>BUDGET | ACTUAL plus<br>ENCUMBRANCES | % OF<br>BUDGET |  |
| General Fund                        | \$20,336,056        | 108%           | \$20,287,885                | 98%            | \$10,002,777                               |
| Community Development               | 3,178,657           | 105%           | 3,568,671                   | 96%            | 1,976,003                                  |
| RDA                                 | 22,701,442          | 81%            | 41,783,095                  | 83%            | (6,970,323)                                |
| Housing/CDBG                        | 6,628,139           | 135%           | 5,510,893                   | 48%            | 7,339,696                                  |
| Sewer Operations                    | 5,438,717           | 92%            | 6,769,852                   | 99%            | 1,545,205                                  |
| Sewer Other                         | 3,503,033           | 151%           | 3,734,014                   | 83%            | 12,735,513                                 |
| Water Operations                    | 7,648,750           | 100%           | 8,451,239                   | 94%            | 3,362,471                                  |
| Water Other                         | 1,839,637           | 117%           | 3,571,321                   | 81%            | 2,182,996                                  |
| Other Special Revenues <sup>1</sup> | 1,592,688           | 118%           | 1,410,708                   | 48%            | 5,161,525                                  |
| Capital Projects & Streets Funds    | 8,304,204           | 83%            | 9,359,445                   | 52%            | 25,313,599                                 |
| Debt Service Funds                  | 707,888             | 90%            | 716,634                     | 100%           | 855,050                                    |
| Internal Service                    | 5,136,080           | 93%            | 4,345,214                   | 85%            | 6,257,581                                  |
| Agency                              | 3,292,106           | 139%           | 2,953,466                   | 128%           | 4,560,605                                  |
| <b>TOTAL FOR ALL FUNDS</b>          | <b>\$90,307,397</b> | <b>98%</b>     | <b>\$112,462,437</b>        | <b>80%</b>     | <b>\$74,322,698</b>                        |

<sup>1</sup> Includes all Special Revenue Funds except Community Development, CDBG, and Street Funds



# Morgan Hill YTD General Fund Revenues

Final June 30, 2006 - 100% Year Complete

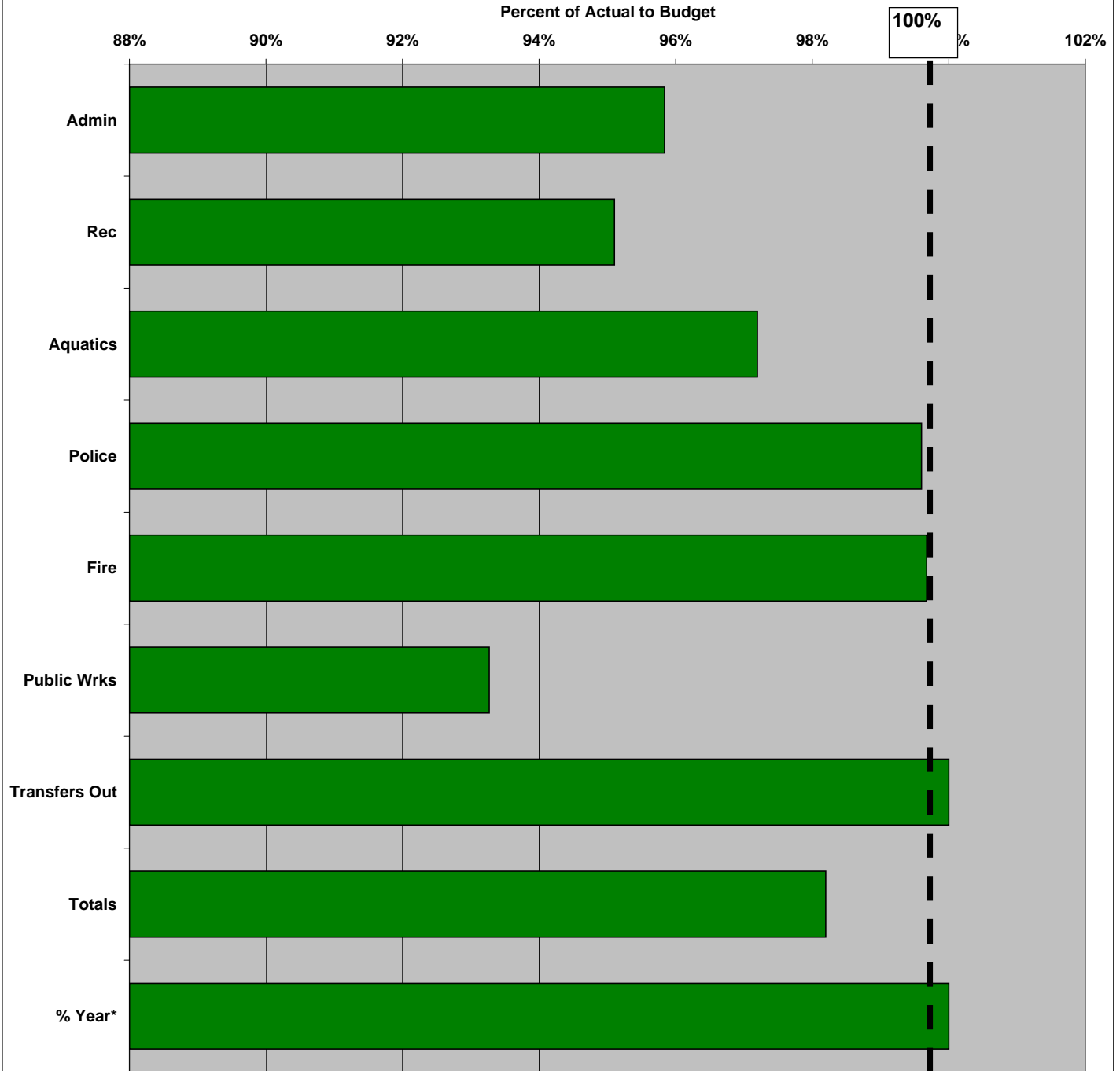


| REVENUE CATEGORY            | BUDGET       | ACTUAL       | % OF BUDGET | PRIOR YEAR TO DATE | % CHANGE FROM PRIOR YEAR |
|-----------------------------|--------------|--------------|-------------|--------------------|--------------------------|
| PROPERTY RELATED TAXES      | \$4,911,595  | \$5,740,492  | 117%        | \$4,767,384        | 20%                      |
| SALES TAXES                 | \$5,724,600  | \$6,348,185  | 111%        | \$5,524,960        | 15%                      |
| FRANCHISE FEE               | \$1,030,700  | \$1,025,412  | 100%        | \$995,298          | 3%                       |
| HOTEL TAX                   | \$974,560    | \$1,029,837  | 106%        | \$956,327          | 8%                       |
| LICENSES/PERMITS            | \$161,680    | \$165,114    | 102%        | \$199,502          | -17%                     |
| MOTOR VEHICLE IN LIEU       | \$188,776    | \$236,933    | 126%        | \$220,868          | 7%                       |
| FUNDING - OTHER GOVERNMENTS | \$246,400    | \$427,796    | 174%        | \$230,330          | 86%                      |
| CHARGES CURRENT SERVICES    | \$3,890,825  | \$3,586,735  | 92%         | \$3,437,751        | 4%                       |
| INTEREST & OTHER REVENUE    | \$1,151,300  | \$1,260,807  | 110%        | \$955,272          | 32%                      |
| TRANSFERS IN                | \$573,210    | \$514,745    | 90%         | \$388,100          | 33%                      |
| TOTALS                      | \$18,853,646 | \$20,336,056 | 108%        | \$17,675,792       | 15%                      |



# Morgan Hill YTD General Fund Expenditures

Final June 30, 2006- 100% Year Complete



| Expenditure Category | Budget        | Actual Plus Encumbrances | % of Budget |
|----------------------|---------------|--------------------------|-------------|
| ADMINISTRATION       | 3,509,140     | 3,374,991                | 95.84%      |
| RECREATION/CCC       | 1,688,751     | 1,587,396                | 95.10%      |
| AQUATICS             | 1,403,838     | 1,364,488                | 97.20%      |
| POLICE               | 8,859,471     | 8,824,073                | 99.60%      |
| FIRE                 | 4,377,495     | 4,363,334                | 99.68%      |
| PUBLIC WORKS         | 711,485       | 663,603                  | 93.27%      |
| TRANSFERS OUT        | 110,000       | 110,000                  | 100.00%     |
| TOTALS               | \$ 20,660,180 | \$ 20,287,885            | 98.20%      |



**City of Morgan Hill**  
**Fund Activity Summary - Fiscal Year 2005/06**  
**Final For the Month of June 2006**  
**100% of Year Completed**

| Fund No.                           | Fund                          | Fund Balance<br>06-30-05 | Revenues            |                | Expenses            |                | Year to-Date<br>Deficit or<br>Carryover | Ending Fund Balance   |                     | Cash and Investments |                         |
|------------------------------------|-------------------------------|--------------------------|---------------------|----------------|---------------------|----------------|---|-----------------------|---------------------|----------------------|-------------------------|
|                                    |                               |                          | YTD<br>Actual       | % of<br>Budget | YTD<br>Actual       | % of<br>Budget |   | Reserved <sup>1</sup> | Unreserved          | Unrestricted         | Restricted <sup>2</sup> |
| 010                                | GENERAL FUND                  | \$9,954,606              | \$20,336,056        | 108%           | \$20,107,719        | 97%            | \$228,337                               | \$180,166             | \$10,002,777        | \$9,814,721          | \$6,112                 |
| <b>TOTAL GENERAL FUND</b>          |                               | <b>\$9,954,606</b>       | <b>\$20,336,056</b> | <b>108%</b>    | <b>\$20,107,719</b> | <b>97%</b>     | <b>\$228,337</b>                        | <b>\$180,166</b>      | <b>\$10,002,777</b> | <b>\$9,814,721</b>   | <b>\$6,112</b>          |
| 202                                | STREET MAINTENANCE            | \$1,269,242              | \$2,044,482         | 43%            | \$2,581,346         | 47%            | (\$536,864)                             | \$541,399             | \$190,979           | \$690,062            |                         |
| 204/205                            | PUBLIC SAFETY/SUPPL. LAW      | \$256,490                | \$107,929           | 99%            | \$198,781           | 113%           | (\$90,852)                              |                       | \$165,638           | \$164,489            |                         |
| 206                                | COMMUNITY DEVELOPMENT         | \$2,366,017              | \$3,178,657         | 105%           | \$3,372,818         | 91%            | (\$194,161)                             | \$195,853             | \$1,976,003         | \$2,305,394          |                         |
| 207                                | GENERAL PLAN UPDATE           | \$326,302                | \$246,681           | 109%           | \$187,489           | 53%            | \$59,192                                | \$54,865              | \$330,629           | \$387,079            |                         |
| 210                                | COMMUNITY CENTER              | \$203,282                | \$107,162           | 104%           | \$72,713            | n/a            | \$34,449                                |                       | \$237,731           | \$236,387            |                         |
| 215 / 216                          | CDBG                          | 152,202                  | \$106,291           | 21%            | \$200,187           | 26%            | (\$93,896)                              | 614,359               | (\$556,053)         | \$60,859             |                         |
| 225                                | ASSET SEIZURE                 | \$8,930                  | \$305               | 18%            | \$300               | n/a            | \$5                                     |                       | \$8,935             | \$8,877              |                         |
| 229                                | LIGHTING AND LANDSCAPE        | (\$4,556)                | \$150,161           | 109%           | \$144,421           | 99%            | \$5,740                                 | \$11,611              | (\$10,427)          | \$8,080              |                         |
| 232                                | ENVIRONMENTAL PROGRAMS        | \$779,095                | \$494,411           | 87%            | \$411,955           | 86%            | \$82,456                                | \$40,901              | \$820,650           | \$775,635            |                         |
| 234                                | MOBILE HOME PK RENT STAB.     | \$167,364                | \$11,684            | 118%           | \$167,771           | 3472%          | (\$156,087)                             |                       | \$11,277            | \$10,060             |                         |
| 235                                | SENIOR HOUSING                | \$250,448                | \$8,719             | 127%           | \$3,275             | 4%             | \$5,444                                 |                       | \$255,892           | \$254,258            |                         |
| 236                                | HOUSING MITIGATION            | \$2,335,762              | \$418,000           | 299%           | 15,029              | 1%             | \$402,971                               | -                     | \$2,738,733         | \$2,723,054          |                         |
| 240                                | EMPLOYEE ASSISTANCE           | \$75,939                 | \$28,354            | 66%            | 28,362              | 26%            | (\$8)                                   |                       | \$75,931            | \$74,349             |                         |
| 247                                | ENVIRONMENT REMEDIATION       | \$580,489                | 19,282              | 227%           | 73,235              | 48%            | (\$53,953)                              |                       | \$526,536           | \$498,071            |                         |
| <b>TOTAL SPECIAL REVENUE FUNDS</b> |                               | <b>\$8,767,006</b>       | <b>\$6,922,118</b>  | <b>72%</b>     | <b>\$7,457,682</b>  | <b>58%</b>     | <b>(\$535,564)</b>                      | <b>\$1,458,988</b>    | <b>\$6,772,454</b>  | <b>\$8,196,657</b>   |                         |
| 301                                | PARK DEV. IMPACT FUND         | \$4,030,817              | \$1,610,467         | 198%           | \$213,657           | 7%             | \$1,396,810                             | \$389,818             | \$5,037,809         |                      | \$5,422,212             |
| 302                                | PARK MAINTENANCE              | \$3,554,129              | \$406,774           | 98%            | \$167,003           | 36%            | \$239,771                               | \$2,564               | \$3,791,336         | \$3,769,481          |                         |
| 303                                | LOCAL DRAINAGE                | \$3,799,031              | \$423,389           | 33%            | \$12,376            | 1%             | \$411,013                               |                       | \$4,210,044         |                      | \$4,183,190             |
| 304                                | LOCAL DRAINAGE/NON-AB1600     | \$3,456,214              | \$275,025           | 77%            | \$678,263           | 53%            | (\$403,238)                             | \$178,366             | \$2,874,610         | \$2,990,133          |                         |
| 306                                | OPEN SPACE                    | \$1,249,785              | \$315,168           | 184%           | 2,969               |                | \$312,199                               |                       | \$1,561,984         | \$1,552,004          |                         |
| 309                                | TRAFFIC IMPACT FUND           | \$3,319,523              | \$1,765,568         | 157%           | \$824,203           | 39%            | \$941,365                               | \$935,919             | \$3,324,969         |                      | \$4,369,769             |
| 311                                | POLICE IMPACT FUND            | \$177,081                | \$99,919            | 94%            | \$218,437           | 84%            | (\$118,518)                             |                       | \$58,563            |                      | \$58,200                |
| 313                                | FIRE IMPACT FUND              | \$2,516,441              | \$211,098           | 108%           | \$1,379             | 0%             | \$209,719                               |                       | \$2,726,160         |                      | \$2,708,770             |
| 317                                | REDEVELOPMENT AGENCY          | 12,182,379               | \$22,701,442        | 81%            | \$25,514,016        | 50%            | (\$2,812,574)                           | 16,340,128            | (\$6,970,323)       | \$11,338,181         |                         |
| 327 / 328                          | HOUSING                       | 6,764,866                | \$6,521,848         | 148%           | \$5,087,081         | 50%            | \$1,434,767                             | 303,884               | \$7,895,749         | \$7,975,959          |                         |
| 340/342                            | MORGAN HILL BUS.RANCH I & II  | 24,491                   | \$943               | 30%            | -                   |                | \$943                                   | -                     | \$25,434            | \$25,271             |                         |
| 346                                | PUBLIC FACILITIES NON-AB1600  | \$786,512                | \$415,111           | 182%           | 325,688             |                | \$89,423                                | \$395,771             | \$480,164           | \$870,373            |                         |
| 347                                | PUBLIC FACILITIES IMPACT FUND | 504,550                  | \$365,215           | 470%           | \$65,594            | 92%            | \$299,621                               | -                     | \$804,171           |                      | \$799,432               |
| 348                                | LIBRARY IMPACT FUND           | \$575,154                | \$200,914           | 163%           | \$29,782            | 5%             | \$171,132                               | \$620,421             | \$125,865           |                      | \$770,941               |
| 350                                | UNDERGROUNDING                | 1,022,340                | 56,502              | 30%            | \$1,010,509         | 90%            | (\$954,007)                             | 157,806               | (\$89,473)          | \$540,941            |                         |
| 360                                | COMM/REC CTR IMPACT FUND      | \$83,530                 | 113,629             | 30%            | 6,175               | 3%             | \$107,454                               |                       | \$190,984           | \$189,778            |                         |
| <b>TOTAL CAPITAL PROJECT FUNDS</b> |                               | <b>\$44,046,843</b>      | <b>\$35,483,012</b> | <b>94%</b>     | <b>\$34,157,132</b> | <b>47%</b>     | <b>\$1,325,880</b>                      | <b>\$19,324,677</b>   | <b>\$26,048,046</b> | <b>\$29,252,121</b>  | <b>\$18,312,513</b>     |
| 441                                | POLICE FACILITY BOND DEBT     | \$456,374                | 498,880             | n/a            | 483,787             |                | \$15,093                                |                       | \$471,467           | (\$45,481)           | \$515,422               |
| 545                                | COCHRANE BUSINESS PARK        | \$372,751                | 179,366             | 80%            | 196,520             | 100%           | (\$17,154)                              |                       | \$355,597           | \$173,940            | \$180,950               |
| 551                                | JOLEEN WAY                    | \$34,671                 | \$29,642            | 80%            | \$36,327            | 100%           | (\$6,685)                               |                       | \$27,986            | \$10,733             | \$17,249                |
| <b>TOTAL DEBT SERVICE FUNDS</b>    |                               | <b>\$863,796</b>         | <b>\$707,888</b>    | <b>90%</b>     | <b>\$716,634</b>    | <b>100%</b>    | <b>(\$8,746)</b>                        |                       | <b>\$855,050</b>    | <b>\$139,192</b>     | <b>\$713,621</b>        |





**City of Morgan Hill**  
**Fund Activity Summary - Fiscal Year 2005/06**  
**Final For the Month of June 2006**  
**100% of Year Completed**

| Fund No.                            | Fund                       | Fund Balance<br>06-30-05 | Revenues            |                | Expenses            |                | Year to-Date<br>Deficit or<br>Carryover | Ending Fund Balance   |                     | Cash and Investments |                         |
|-------------------------------------|----------------------------|--------------------------|---------------------|----------------|---------------------|----------------|---|-----------------------|---------------------|----------------------|-------------------------|
|                                     |                            |                          | YTD<br>Actual       | % of<br>Budget | YTD<br>Actual       | % of<br>Budget |   | Reserved <sup>1</sup> | Unreserved          | Unrestricted         | Restricted <sup>2</sup> |
| 640                                 | SEWER OPERATIONS           | \$13,448,714             | \$5,438,717         | 92%            | \$6,723,697         | 98%            | (\$1,284,980)                           | \$10,618,529          | \$1,545,205         | \$1,508,187          | \$1,895,609             |
| 641                                 | SEWER IMPACT FUND          | 11,397,916               | \$2,811,304         | 148%           | \$2,651,578         | 78%            | \$159,726                               | 5,083,557             | \$6,474,085         |                      | \$6,715,685             |
| 642                                 | SEWER RATE STABILIZATION   | \$4,573,148              | \$642,272           | 539%           | \$2,114             | 100%           | \$640,158                               |                       | \$5,213,306         | \$5,180,016          |                         |
| 643                                 | SEWER-CAPITAL PROJECTS     | 9,525,501                | \$49,457            | 17%            | \$878,774           | 83%            | (\$829,317)                             | 7,648,062             | \$1,048,122         | \$1,122,239          |                         |
| 650                                 | WATER OPERATIONS           | \$23,612,699             | \$7,648,750         | 100%           | \$8,194,125         | 92%            | (\$545,375)                             | \$19,704,853          | \$3,362,471         | \$3,335,249          | \$390,244               |
| 651                                 | WATER IMPACT FUND          | 3,666,471                | \$1,008,689         | 177%           | \$1,623,077         | 73%            | (\$614,388)                             | 8,559,704             | (\$5,507,622)       |                      | \$3,346,921             |
| 652                                 | WATER RATE STABILIZATION   | \$26,896                 | \$711,726           | 101%           | \$492               | 100%           | \$711,234                               |                       | \$738,130           | \$733,777            |                         |
| 653                                 | WATER -CAPITAL PROJECT     | 9,084,344                | \$119,222           | 40%            | \$1,679,961         | 69%            | (\$1,560,739)                           | 571,119               | \$6,952,488         | \$2,109,921          | \$216,727               |
| <b>TOTAL ENTERPRISE FUNDS</b>       |                            | <b>\$75,335,689</b>      | <b>\$18,430,137</b> | <b>105%</b>    | <b>\$21,753,818</b> | <b>87%</b>     | <b>(\$3,323,681)</b>                    | <b>\$52,185,824</b>   | <b>\$19,826,185</b> | <b>\$13,989,388</b>  | <b>\$12,565,186</b>     |
| 730                                 | DATA PROCESSING            | 482,422                  | \$260,057           | 102%           | \$260,057           | 75%            |   | 283,791               | \$198,631           | \$348,708            |                         |
| 740                                 | BUILDING MAINTENANCE       | 1,045,710                | \$1,537,319         | 92%            | \$1,289,032         | 93%            | \$248,287                               | 45,316                | \$1,248,681         | \$1,384,882          |                         |
| 745                                 | CIP ADMINISTRATION         | 23,328                   | \$1,229,831         | 87%            | \$1,292,982         | 92%            | (\$63,151)                              | 56,920                | (\$96,743)          | \$76,763             |                         |
| 760                                 | UNEMPLOYMENT INS.          | \$32,787                 | \$58,306            | 100%           | \$9,429             | 17%            | \$48,877                                |                       | \$81,664            | \$81,665             |                         |
| 770                                 | WORKER'S COMP.             | 293,995                  | \$836,158           | 91%            | \$369,900           | 48%            | \$466,258                               | -                     | \$760,253           | \$1,045,356          | \$40,000                |
| 790                                 | EQUIPMENT REPLACEMENT      | 3,515,756                | \$550,471           | 100%           | \$283,083           | 59%            | \$267,388                               | 687,568               | \$3,095,576         | \$3,260,662          |                         |
| 793                                 | CORPORATION YARD           | 245,860                  | \$128,683           | 81%            | \$120,369           | na             | \$8,314                                 | 230,652               | \$23,522            | \$54,424             |                         |
| 795                                 | GEN'L LIABILITY INS.       | \$770,280                | \$535,255           | 106%           | \$359,538           | 75%            | \$175,717                               |                       | \$945,997           | \$1,029,576          |                         |
| <b>TOTAL INTERNAL SERVICE FUNDS</b> |                            | <b>\$6,410,138</b>       | <b>\$5,136,080</b>  | <b>93%</b>     | <b>\$3,984,390</b>  | <b>78%</b>     | <b>\$1,151,690</b>                      | <b>\$1,304,247</b>    | <b>\$6,257,581</b>  | <b>\$7,282,037</b>   | <b>\$40,000</b>         |
| 820                                 | SPECIAL DEPOSITS           |                          |                     |                |                     |                |   |                       |                     | \$1,318,762          |                         |
| 843                                 | M.H. BUS. RANCH 1998       | \$1,548,382              | \$893,040           | 105%           | \$874,614           | 101%           | \$18,426                                |                       | \$1,566,808         | \$626,822            | \$904,416               |
| 844,842,841                         | MH RANCH RSMNT 2004A       | \$1,051,368              | 877,335             |                | \$905,013           | 102%           | (\$27,678)                              |                       | \$1,023,690         | \$401,270            | \$621,153               |
| 845,846                             | MADRONE BP-A/B             | \$1,129,698              | \$1,504,683         |                | \$1,159,573         | 218%           | \$345,110                               |                       | \$1,474,808         | \$460,700            | \$1,013,659             |
| 848                                 | TENNANT AVE.BUS.PK A.D.    | \$470,489                | \$16,375            | 105%           | \$10,038            | na             | \$6,337                                 |                       | \$476,826           | \$473,778            |                         |
| 881                                 | POLICE DONATION TRUST FUND | \$22,028                 | \$673               | 105%           | \$4,228             | na             | (\$3,555)                               |                       | \$18,473            |                      | \$18,359                |
| <b>TOTAL AGENCY FUNDS</b>           |                            | <b>\$4,221,965</b>       | <b>\$3,292,106</b>  | <b>139%</b>    | <b>\$2,953,466</b>  | <b>128%</b>    | <b>\$338,640</b>                        |                       | <b>\$4,560,605</b>  | <b>\$3,281,332</b>   | <b>\$2,557,587</b>      |
| <b>SUMMARY BY FUND TYPE</b>         |                            |                          |                     |                |                     |                |   |                       |                     |                      |                         |
| GENERAL FUND GROUP                  |                            | \$9,954,606              | \$20,336,056        | 108%           | \$20,107,719        | 97%            | \$228,337                               | \$180,166             | \$10,002,777        | \$9,814,721          | \$6,112                 |
| SPECIAL REVENUE GROUP               |                            | \$8,767,006              | \$6,922,118         | 72%            | \$7,457,682         | 58%            | (\$535,564)                             | \$1,458,988           | \$6,772,454         | \$8,196,657          |                         |
| DEBT SERVICE GROUP                  |                            | \$863,796                | \$707,888           | 90%            | \$716,634           | 100%           | (\$8,746)                               |                       | \$855,050           | \$139,192            | \$713,621               |
| CAPITAL PROJECTS GROUP              |                            | \$44,046,843             | \$35,483,012        | 94%            | \$34,157,132        | 47%            | \$1,325,880                             | \$19,324,677          | \$26,048,046        | \$29,252,121         | \$18,312,513            |
| ENTERPRISE GROUP                    |                            | \$75,335,689             | \$18,430,137        | 105%           | \$21,753,818        | 87%            | (\$3,323,681)                           | \$52,185,824          | \$19,826,185        | \$13,989,388         | \$12,565,186            |
| INTERNAL SERVICE GROUP              |                            | \$6,410,138              | \$5,136,080         | 93%            | \$3,984,390         | 78%            | \$1,151,690                             | \$1,304,247           | \$6,257,581         | \$7,282,037          | \$40,000                |
| AGENCY GROUP                        |                            | \$4,221,965              | \$3,292,106         | 139%           | \$2,953,466         | 128%           | \$338,640                               |                       | \$4,560,605         | \$3,281,332          | \$2,557,587             |
| <b>TOTAL ALL GROUPS</b>             |                            | <b>\$149,600,043</b>     | <b>\$90,307,397</b> | <b>98%</b>     | <b>\$91,130,841</b> | <b>65%</b>     | <b>(\$823,444)</b>                      | <b>\$74,453,902</b>   | <b>\$74,322,698</b> | <b>\$71,955,448</b>  | <b>\$34,195,019</b>     |
| <b>TOTAL CASH AND INVESTMENTS</b>   |                            |                          |                     |                |                     |                |   |                       |                     | <b>\$106,150,467</b> |                         |

For Enterprise Funds - Unrestricted fund balance = Fund balance net of fixed assets and long-term liabilities.

<sup>1</sup> Amount restricted for encumbrances, fixed asset replacement, long-term receivables, and bond reserves.

<sup>2</sup> Amount restricted for debt service payments and AB1600 capital expansion projects as detailed in the City's five year CIP Plan and bond agreements.



**CITY OF MORGAN HILL CASH AND INVESTMENT REPORT**  
**FINAL FOR THE MONTH OF JUNE 2006**  
**FOR THE FISCAL YEAR OF 2005-06**

|   | Invested<br>in Fund | Yield    | Book Value<br>End of Month | Investment Category<br>Subtotal at Cost | % of<br>Total  | Market<br>Value      |
|---|---------------------|----------|----------------------------|---|----------------|----------------------|
| <b>Investments</b>                              |                     |          |                            |   |                |                      |
| State Treasurer LAIF - City                     | All Funds Pooled    | 4.85%    | \$18,879,928               |   | 17.78%         | \$18,845,677         |
| - RDA   | RDA                 | 4.85%    | \$10,315,952               |   | 9.72%          | \$10,297,237         |
| Federal Issues                                  | All Funds Pooled    | 3.67%    | \$64,247,720               |   | 60.52%         | \$62,601,950         |
| SVNB CD   | All Funds Pooled    | 3.60%    | \$2,000,000                |   | 1.88%          | \$2,000,000          |
| US Treasury Notes                               | All Funds Pooled    | 5.17%    | \$1,974,901                |   | 1.86%          | \$1,979,600          |
| Money Market                                    | All Funds Pooled    | 4.25%    | \$191,369                  | \$97,609,870                            | 0.18%          | \$191,369            |
| <b>Bond Reserve Accounts - held by trustees</b> |                     |          |                            |   |                |                      |
| BNY - 2002 SCRWA Bonds                          |                     |          |                            |   |                |                      |
| MBIA Repurchase & Custody Agmt                  | Sewer               | 4.78%    | \$1,849,400                |   |                |                      |
| Blackrock Provident Temp Fund                   |                     | 4.62%    | \$46,209                   |   | 1.79%          | \$1,895,609          |
| US Bank - 1999 Water C.O.P.                     |                     |          |                            |   |                |                      |
| First American Treasury                         | Water               | 4.56%    | \$670                      |   | 0.00%          |                      |
| FNMA  |                     | 4.16%    | \$389,574                  |   | 0.37%          | \$391,670            |
| BNY - MH Water Revenue Bonds                    |                     |          |                            |   |                |                      |
| Blackrock Liquidity Temp Fund                   | Water               | 4.70%    | \$35,156                   |   | 0.03%          | \$35,156             |
| FHLB  |                     | 4.50%    | \$687,267                  |   | 0.65%          | \$683,938            |
| Morgan Stanley Repurchase Agreement             |                     | 1.64%    | \$630,463                  |   | 0.59%          | \$630,463            |
| BNY - MH Police Facility Lease Revenue Bonds    |                     |          |                            |   |                |                      |
| JP Morgan Treasury Plus                         | Debt Service        | 4.19%    | \$63,252                   |   | 0.06%          | \$63,252             |
| FNMA  | Public Facility     | 4.26%    | \$452,170                  |   | 0.43%          | \$457,040            |
| US Bank - MH Ranch 98                           |                     |          |                            |   |                |                      |
| First American Treasury Obligation              | Agency Fund         | 4.73%    | \$904,416                  |   | 0.85%          | \$904,416            |
| BNY - Madrone Bus Park Tax Exempt               |                     |          |                            |   |                |                      |
| Blackrock Liquidity Temp Fund #20               | Madrone Bus Park    |          |                            |   |                |                      |
|   | Agency Fund         | 3.94%    | \$974,090                  |   | 0.92%          | \$974,090            |
| BNY - Madrone Bus Park Taxable                  |                     |          |                            |   |                |                      |
| Blackrock Liquidity Temp Fund #20               | Madrone Bus Park    |          |                            |   |                |                      |
|   | Agency Fund         | 3.94%    | \$82,306                   |   | 0.08%          | \$82,306             |
| BNY - MH Ranch 2004 A                           |                     |          |                            |   |                |                      |
| Blackrock Provident Temp Fund                   | MH Ranch Bus Park   |          |                            |   |                |                      |
|   | Agency Fund         | 4.62%    | \$621,153                  | \$6,736,126                             | 0.59%          | \$621,153            |
| <b>Other Accounts/Deposits</b>                  |                     |          |                            |   |                |                      |
| General Checking                                | All Funds           |          | \$312,973                  |   | 0.29%          | \$312,973            |
| Dreyfuss Treas Cash Management Account          | All Funds           |          | \$1,299,816                |   | 1.22%          | \$1,299,816          |
| Borel Bank - Cash in Escrow Account             | Streets/Pub Fac     | 0.90%    | \$145,570                  |   | 0.14%          | \$145,570            |
| Athens Administrators Workers' Comp             | Workers' Comp       |          | \$40,000                   |   | 0.04%          | \$40,000             |
| Petty Cash & Emergency Cash                     | Various Funds       |          | \$6,112                    | \$1,804,471                             | 0.01%          | \$6,112              |
| <b>Total Cash and Investments</b>               |                     |          | <b>\$106,150,467</b>       | <b>\$106,150,467</b>                    | <b>100.00%</b> | <b>\$104,459,397</b> |
| <b>MH Financing Authority Investment in</b>     |                     |          |                            |   |                |                      |
| MH Ranch AD Imprvmt Bond Series 2004            |                     | 1.75% to |                            |   |                |                      |
|   |                     | 4.50%    | <u>\$4,795,000</u>         |   |                | <u>Unavailable</u>   |
| MH Madrone Bus Park Bond Series A               |                     | 5.82%    | <u>\$8,620,000</u>         |   |                | <u>Unavailable</u>   |
| MH Madrone Bus Park Bond Series B               |                     | 7.07%    | <u>\$1,110,000</u>         |   |                | <u>Unavailable</u>   |

**CASH ACTIVITY SUMMARY**  
**FY 05/06**

| Fund Type                                 | 07/01/05<br>Balance  | Change in<br>Cash Balance | 06/30/06<br>Balance  | Restricted          | Unrestricted        |
|---|----------------------|---------------------------|----------------------|---------------------|---------------------|
| General Fund                              | \$10,455,185         | (\$634,352)               | \$9,820,833          | \$6,112             | \$9,814,721         |
| Community Development                     | \$2,484,637          | (\$179,243)               | \$2,305,394          | \$0                 | \$2,305,394         |
| RDA (except Housing)                      | \$12,565,424         | (\$1,227,243)             | \$11,338,181         | \$0                 | \$11,338,181        |
| Housing / CDBG                            | \$7,048,619          | \$988,199                 | \$8,036,818          | \$0                 | \$8,036,818         |
| Water - Operations                        | \$4,039,659          | (\$314,166)               | \$3,725,493          | \$390,244           | \$3,335,249         |
| Water Other                               | \$7,876,280          | (\$1,468,934)             | \$6,407,346          | \$3,563,648         | \$2,843,698         |
| Sewer - Operations                        | \$4,352,715          | (\$948,919)               | \$3,403,796          | \$1,895,609         | \$1,508,187         |
| Sewer Other                               | \$13,685,930         | (\$667,990)               | \$13,017,940         | \$6,715,685         | \$6,302,255         |
| Other Special Revenue                     | \$4,926,444          | \$213,897                 | \$5,140,341          | \$0                 | \$5,140,341         |
| Streets and Capital Projects (except RDA) | \$26,522,147         | \$2,418,409               | \$28,940,556         | \$18,312,513        | \$10,628,043        |
| Assessment Districts/Debt Service         | \$862,668            | (\$9,855)                 | \$852,813            | \$713,621           | \$139,192           |
| Internal Service                          | \$6,597,707          | \$724,330                 | \$7,322,037          | \$40,000            | \$7,282,037         |
| Agency Funds                              | <u>\$5,329,847</u>   | <u>\$509,072</u>          | <u>\$5,838,919</u>   | <u>\$2,557,587</u>  | <u>\$3,281,332</u>  |
| <b>Total</b>                              | <b>\$106,747,262</b> | <b>(\$596,795)</b>        | <b>\$106,150,467</b> | <b>\$34,195,019</b> | <b>\$71,955,448</b> |

Note: See Investment Portfolio Detail for maturities of "Investments." Market values are obtained from the City's investment brokers' monthly reports.

I certify the information on the investment reports on pages 6-8 has been reconciled to the general ledger and bank statements and that there are sufficient funds to meet the expenditure requirements of the City for the next six months. The portfolio is in compliance with the City of Morgan Hill investment policy and all State laws and regulations.

Prepared by: \_\_\_\_\_  
 Lourdes Reroma  
 Accountant I

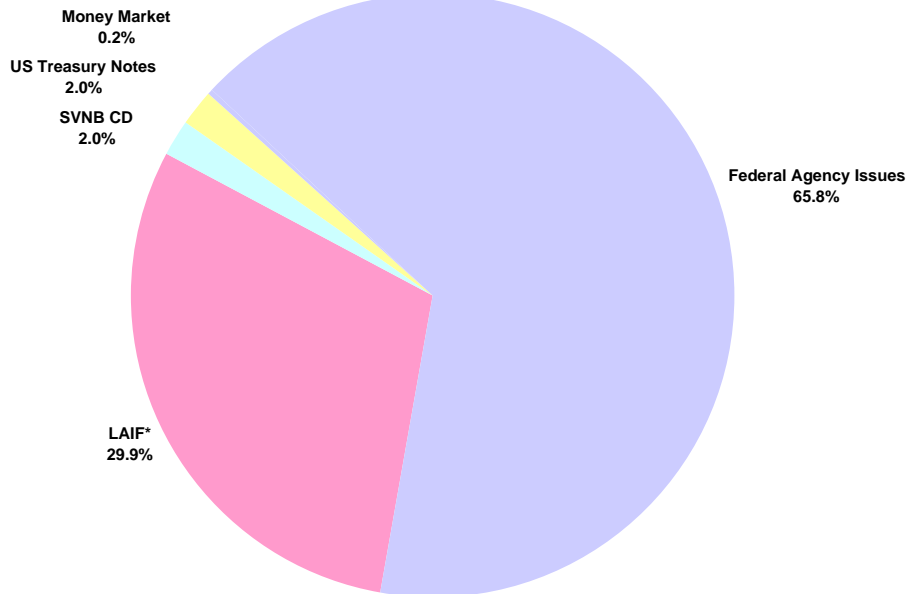
Approved by: \_\_\_\_\_  
 Jack Dilles  
 Director of Finance

Verified by: \_\_\_\_\_  
 Tina Reza  
 Assistant Director of Finance

\_\_\_\_\_  
 Mike Roorda  
 City Treasurer



# CITY OF MORGAN HILL INVESTMENT PORTFOLIO DETAIL Final as of 06/30/06



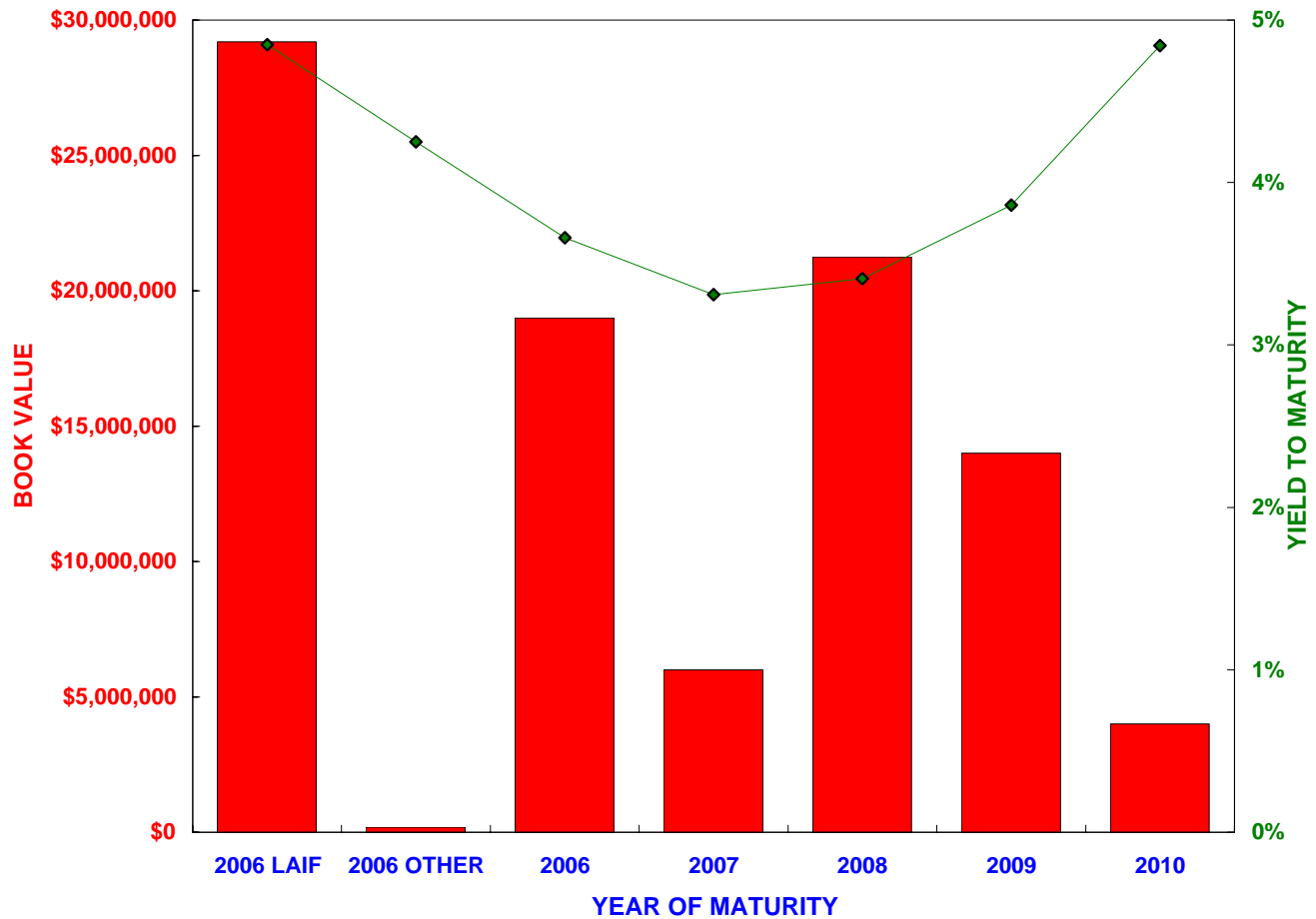
| Investment Type              | Purchase Date   | Book Value          | % of Portfolio | Market Value        | Stated Rate   | Interest Earned    | Next Call Date | Date of Maturity | Years to Maturity |
|------------------------------|-----------------|---------------------|----------------|---------------------|---------------|--------------------|----------------|------------------|-------------------|
| <b>LAIF*</b>                 |                 | <b>\$29,195,880</b> | <b>29.91%</b>  | <b>\$29,142,914</b> | <b>4.849%</b> | <b>\$971,245</b>   |                |                  | <b>0.003</b>      |
| <b>SVNB CD</b>               | <b>07/07/05</b> | <b>\$2,000,000</b>  | <b>2.05%</b>   | <b>\$2,000,000</b>  | <b>3.600%</b> | <b>\$71,800</b>    |                | <b>07/06/07</b>  | <b>1.016</b>      |
| <b>US Treasury Notes</b>     | <b>06/27/06</b> | <b>\$1,974,901</b>  | <b>2.02%</b>   | <b>\$1,979,600</b>  | <b>5.170%</b> | <b>57</b>          |                | <b>04/30/11</b>  | <b>4.833</b>      |
| <b>Federal Agency Issues</b> |                 |                     |                |                     |               |                    |                |                  |                   |
| Fed Home Loan Bank           | 10/26/05        | \$4,000,000         | 4.10%          | \$3,996,240         | 4.125%        | \$142,335          | 07/26/06       | 07/26/06         | 0.068             |
| Fed Home Loan Bank           | 11/29/04        | \$2,000,000         | 2.05%          | \$1,992,500         | 3.076%        | \$61,861           | 08/28/06       | 08/28/06         | 0.159             |
| Fed Home Loan Mgt Corp       | 11/30/04        | \$2,000,000         | 2.05%          | \$1,992,620         | 3.070%        | \$66,709           | 08/30/06       | 08/30/06         | 0.164             |
| Fed Home Loan Bank           | 03/08/05        | \$1,999,874         | 2.05%          | \$1,992,500         | 3.470%        | \$70,065           | 09/08/06       | 09/08/06         | 0.189             |
| Fed Home Loan Bank           | 12/15/04        | \$2,000,000         | 2.05%          | \$1,991,260         | 3.250%        | \$65,000           | 09/15/06       | 09/15/06         | 0.208             |
| Fed Home Loan Bank           | 03/15/05        | \$1,000,000         | 1.02%          | \$995,940           | 3.500%        | \$35,000           | 09/15/06       | 09/15/06         | 0.208             |
| Fed Home Loan Bank           | 12/29/05        | \$4,000,000         | 4.10%          | \$3,991,240         | 4.625%        | \$94,511           | 09/29/06       | 09/29/06         | 0.247             |
| Fed Home Loan Bank           | 03/29/04        | \$2,000,000         | 2.05%          | \$1,972,500         | 2.650%        | \$53,000           | 12/29/06       | 12/29/06         | 0.496             |
| Fed Home Loan Bank           | 03/18/04        | \$2,000,000         | 2.05%          | \$1,953,760         | 3.030%        | \$60,600           | 09/18/06       | 06/18/07         | 0.964             |
| Fed Home Loan Bank           | 03/29/04        | \$2,000,000         | 2.05%          | \$1,938,120         | 3.300%        | \$66,000           | 09/28/06       | 12/28/07         | 1.493             |
| Fed Home Loan Mgt Corp       | 03/12/03        | \$2,000,000         | 2.05%          | \$1,936,460         | 3.500%        | \$70,000           | 09/12/06       | 03/12/08         | 1.699             |
| Fed Home Loan Bank           | 03/26/03        | \$2,000,000         | 2.05%          | \$1,931,260         | 3.375%        | \$67,500           | anytime        | 03/26/08         | 1.737             |
| Fed Home Loan Mgt Corp       | 04/16/03        | \$2,000,000         | 2.05%          | \$1,936,520         | 3.600%        | \$72,000           | 10/16/06       | 04/16/08         | 1.795             |
| Fed Home Loan Mgt Corp       | 04/17/03        | \$1,997,846         | 2.05%          | \$1,937,260         | 3.625%        | \$75,019           | 10/17/06       | 04/17/08         | 1.797             |
| Fed Farm Credit Bank         | 06/03/03        | \$2,000,000         | 2.05%          | \$1,918,120         | 3.210%        | \$64,200           | 12/03/06       | 06/03/08         | 1.926             |
| Fed Farm Credit Bank         | 06/12/03        | \$2,000,000         | 2.05%          | \$1,907,500         | 2.950%        | \$59,000           | 07/30/06       | 06/12/08         | 1.951             |
| Fed Home Loan Bank           | 07/30/03        | \$2,000,000         | 2.05%          | \$1,904,380         | 3.000%        | \$60,000           | 07/30/06       | 07/30/08         | 2.082             |
| Fed Home Loan Bank           | 07/30/03        | \$2,000,000         | 2.05%          | \$1,915,000         | 3.243%        | \$65,400           | 07/30/06       | 07/30/08         | 2.082             |
| Fed Home Loan Bank           | 07/30/03        | \$2,000,000         | 2.05%          | \$1,920,000         | 3.400%        | \$68,000           | 07/30/06       | 07/30/08         | 2.082             |
| Fed Home Loan Bank           | 08/14/03        | \$1,250,000         | 1.28%          | \$1,206,250         | 3.690%        | \$46,125           | 08/14/06       | 08/14/08         | 2.123             |
| Fed Home Loan Bank           | 10/15/03        | \$2,000,000         | 2.05%          | \$1,938,120         | 4.000%        | \$40,000           | anytime        | 10/15/08         | 2.293             |
| Fed Farm Credit Bank         | 03/16/04        | \$2,000,000         | 2.05%          | \$1,911,260         | 3.650%        | \$73,000           | anytime        | 03/16/09         | 2.710             |
| Fed Home Loan Bank           | 03/26/04        | \$2,000,000         | 2.05%          | \$1,927,500         | 4.000%        | \$80,000           | 07/26/06       | 03/26/09         | 2.737             |
| Fed Home Loan Bank           | 04/06/04        | \$2,000,000         | 2.05%          | \$1,908,120         | 3.625%        | \$72,500           | anytime        | 04/06/09         | 2.767             |
| Fed Home Loan Bank           | 04/07/04        | \$2,000,000         | 2.05%          | \$1,906,880         | 3.600%        | \$72,000           | 07/07/06       | 04/07/09         | 2.770             |
| Fed National Mortgage        | 04/16/04        | \$2,000,000         | 2.05%          | \$1,912,500         | 3.750%        | \$75,000           | 07/16/06       | 04/16/09         | 2.795             |
| Fed Home Loan Bank           | 04/29/04        | \$2,000,000         | 2.05%          | \$1,912,500         | 3.750%        | \$75,000           | 07/29/06       | 04/29/09         | 2.830             |
| Fed Home Loan Bank           | 09/29/05        | \$2,000,000         | 2.05%          | \$1,950,000         | 4.650%        | \$70,255           | 09/29/06       | 09/29/09         | 3.249             |
| Fed Home Loan Bank           | 08/16/05        | \$2,000,000         | 2.05%          | \$1,956,260         | 4.875%        | \$85,111           | 08/16/06       | 08/16/10         | 4.129             |
| Fed Farm Credit Bank         | 08/30/05        | \$2,000,000         | 2.05%          | \$1,940,000         | 4.810%        | \$80,254           | 09/07/07       | 09/07/10         | 4.189             |
| Fed Home Loan Bank           | 06/29/06        | \$2,000,000         | 2.05%          | \$2,009,380         | 5.600%        | \$311              | na             | 06/28/11         | 4.995             |
| Redeemed in FY 05/06         |                 |                     |                |                     |               | \$142,131          |                |                  |                   |
| <b>Sub Total/Average</b>     |                 | <b>\$64,247,720</b> | <b>65.82%</b>  | <b>\$62,601,950</b> | <b>3.668%</b> | <b>\$2,227,887</b> |                |                  | <b>1.816</b>      |
| <b>Money Market</b>          |                 | <b>\$191,369</b>    | <b>0.20%</b>   | <b>\$191,369</b>    | <b>4.250%</b> | <b>\$35,246</b>    |                |                  | <b>0.003</b>      |
| <b>TOTAL/AVERAGE</b>         |                 | <b>\$97,609,870</b> | <b>100.00%</b> | <b>\$95,915,833</b> | <b>4.088%</b> | <b>\$3,306,234</b> |                |                  | <b>1.318</b>      |

\*Per State Treasurer Report dated 06/30/2006, LAIF had invested approximately 5% of its balance in Treasury Bills and Notes, 23% in CDs, 20% in Commercial Paper and Corporate Bonds, 0% in Banker's Acceptances and 52% in others.



# CITY OF MORGAN HILL

INVESTMENT MATURITIES  
FINAL AS OF JUNE 30, 2006



| YEAR OF MATURITY | BOOK VALUE   | MARKET VALUE | AVERAGE RATE | % OF TOTAL |
|------------------|--------------|--------------|--------------|------------|
| 2006 LAIF        | \$29,195,880 | \$29,142,914 | 4.849%       | 29.91%     |
| 2006 OTHER       | \$191,369    | \$191,369    | 4.250%       | 0.20%      |
| 2006             | \$18,999,874 | \$18,924,800 | 3.660%       | 19.47%     |
| 2007             | \$6,000,000  | \$5,891,880  | 3.310%       | 6.15%      |
| 2008             | \$21,247,846 | \$20,450,870 | 3.408%       | 21.77%     |
| 2009             | \$14,000,000 | \$13,428,760 | 3.861%       | 14.34%     |
| 2010             | \$4,000,000  | \$3,896,260  | 4.843%       | 4.10%      |
| 2011             | \$3,974,901  | \$3,988,980  | 5.386%       | 4.07%      |
| TOTAL            | \$97,609,870 | \$95,915,833 | 4.088%       | 100.00%    |



City of Morgan Hill  
Year to Date Revenues - Fiscal Year 2005/06  
Final For the Month of June 2006  
100% of Year Completed

| FUND<br>REVENUE<br>SOURCE               | ADOPTED<br>BUDGET | AMENDED<br>BUDGET | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD      | INCR (DECR)<br>FROM PRIOR<br>YTD | %<br>CHANGE |
|---|-------------------|-------------------|--------------------------|----------------|-------------------|----------------------------------|-------------|
| <b>010 GENERAL FUND</b>                 |                   |                   |                          |                |                   |                                  |             |
| <b><u>TAXES</u></b>                     |                   |                   |                          |                |                   |                                  |             |
| Property Taxes - Secured/Unsecured/Prio | 4,356,790         | 4,356,790         | 4,820,264                | 111%           | 4,108,945         | 711,319                          | 17%         |
| Supplemental Roll                       | 176,280           | 176,280           | 447,108                  | 254%           | 240,779           | 206,329                          | 86%         |
| Sales Tax                               | 5,460,000         | 5,460,000         | 6,097,759                | 112%           | 5,231,224         | 866,535                          | 17%         |
| Public Safety Sales Tax                 | 264,600           | 264,600           | 250,426                  | 95%            | 293,736           | (43,310)                         | -15%        |
| Transient Occupancy Taxes               | 974,560           | 974,560           | 1,029,837                | 106%           | 956,327           | 73,510                           | 8%          |
| Franchise (Refuse ,Cable ,PG&E)         | 1,030,700         | 1,030,700         | 1,025,412                | 99%            | 995,298           | 30,114                           | 3%          |
| Property Transfer Tax                   | 378,525           | 378,525           | 473,120                  | 125%           | 417,660           | 55,460                           | 13%         |
| <b>TOTAL TAXES</b>                      | <b>12,641,455</b> | <b>12,641,455</b> | <b>14,143,926</b>        | <b>112%</b>    | <b>12,243,969</b> | <b>1,899,957</b>                 | <b>16%</b>  |
| <b><u>LICENSES/PERMITS</u></b>          |                   |                   |                          |                |                   |                                  |             |
| Business License                        | 159,650           | 159,650           | 162,022                  | 101%           | 156,690           | 5,332                            | 3%          |
| Other Permits                           | 2,030             | 2,030             | 3,092                    | 152%           | 42,812            | (39,720)                         | -93%        |
| <b>TOTAL LICENSES/PERMITS</b>           | <b>161,680</b>    | <b>161,680</b>    | <b>165,114</b>           | <b>102%</b>    | <b>199,502</b>    | <b>(34,388)</b>                  | <b>-17%</b> |
| <b><u>FINES AND PENALTIES</u></b>       |                   |                   |                          |                |                   |                                  |             |
| Parking Enforcement                     | 10,000            | 10,000            | 19,469                   | 195%           | 13,360            | 6,109                            | 46%         |
| City Code Enforcement                   | 53,500            | 53,500            | 123,771                  | 231%           | 70,166            | 53,605                           | 76%         |
| Business tax late fee/other fines       | 1,200             | 1,200             | 3,199                    | 267%           | 1,544             | 1,655                            | 107%        |
| <b>TOTAL FINES AND PENALTIES</b>        | <b>64,700</b>     | <b>64,700</b>     | <b>146,439</b>           | <b>226%</b>    | <b>85,070</b>     | <b>61,369</b>                    | <b>72%</b>  |
| <b><u>OTHER AGENCIES</u></b>            |                   |                   |                          |                |                   |                                  |             |
| Motor Vehicle in-Lieu                   | 188,776           | 188,776           | 236,933                  | 126%           | 220,868           | 16,065                           | 7%          |
| Other Revenue - Other Agencies          | 246,400           | 246,400           | 427,796                  | 174%           | 230,330           | 197,466                          | 86%         |
| <b>TOTAL OTHER AGENCIES</b>             | <b>435,176</b>    | <b>435,176</b>    | <b>664,729</b>           | <b>153%</b>    | <b>451,198</b>    | <b>213,531</b>                   | <b>47%</b>  |
| <b><u>CHARGES CURRENT SERVICES</u></b>  |                   |                   |                          |                |                   |                                  |             |
| False Alarm Charge                      | 25,000            | 25,000            | 36,517                   | 146%           | 24,776            | 11,741                           | 47%         |
| Business License Application Review     | 23,000            | 23,000            | 26,422                   | 115%           | 26,285            | 137                              | 1%          |
| Recreation Revenue                      | 282,400           | 282,400           | 326,779                  | 116%           | 325,235           | 1,544                            | 0%          |
| Aquatics Revenue                        | 1,255,000         | 1,255,000         | 1,016,132                | 81%            | 1,020,691         | (4,559)                          | 0%          |
| General Administration Overhead         | 1,791,375         | 1,791,375         | 1,791,377                | 100%           | 1,793,851         | (2,474)                          | 0%          |
| Other Charges Current Services          | 514,050           | 514,050           | 389,508                  | 76%            | 246,913           | 142,595                          | 58%         |
| <b>TOTAL CURRENT SERVICES</b>           | <b>3,890,825</b>  | <b>3,890,825</b>  | <b>3,586,735</b>         | <b>92%</b>     | <b>3,437,751</b>  | <b>148,984</b>                   | <b>4%</b>   |
| <b><u>OTHER REVENUE</u></b>             |                   |                   |                          |                |                   |                                  |             |
| Use of money/property                   | 438,750           | 438,750           | 431,913                  | 98%            | 805,742           | (373,829)                        | -46%        |
| Recreation Rentals                      | 484,250           | 484,250           | 560,150                  | 116%           |                   | 560,150                          | n/a         |
| Other Revenues                          | 163,600           | 163,600           | 122,305                  | 75%            | 64,460            | 57,845                           | 90%         |
| <b>TOTAL OTHER REVENUE</b>              | <b>1,086,600</b>  | <b>1,086,600</b>  | <b>1,114,368</b>         | <b>103%</b>    | <b>870,202</b>    | <b>244,166</b>                   | <b>28%</b>  |
| <b><u>TRANSFERS IN</u></b>              |                   |                   |                          |                |                   |                                  |             |
| Park Maintenance                        | 125,000           | 125,000           | 125,000                  | 100%           | 125,000           | -                                | n/a         |
| Sewer Enterprise                        | 41,200            | 41,200            | 41,200                   | 100%           | 20,000            | 21,200                           | 106%        |
| Water Enterprise                        | 20,000            | 20,000            | 20,000                   | 100%           | 20,000            | -                                | n/a         |
| Public Safety                           | 175,000           | 175,000           | 198,262                  | 113%           | 175,000           | 23,262                           | 13%         |
| Community Rec Center                    | 85,665            | 154,440           | 72,713                   | 47%            |                   | 72,713                           | n/a         |
| HCD Block Grant                         | 5,000             | 5,000             | 5,000                    | 100%           |                   | 5,000                            | n/a         |
| Other Funds                             | -                 | 52,570            | 52,570                   | n/a            | 48,100            | 4,470                            | 9%          |
| <b>TOTAL TRANSFERS IN</b>               | <b>451,865</b>    | <b>573,210</b>    | <b>514,745</b>           | <b>90%</b>     | <b>388,100</b>    | <b>126,645</b>                   | <b>33%</b>  |
| <b>TOTAL GENERAL FUND</b>               | <b>18,732,301</b> | <b>18,853,646</b> | <b>20,336,056</b>        | <b>108%</b>    | <b>17,675,792</b> | <b>2,660,264</b>                 | <b>15%</b>  |



City of Morgan Hill  
Year to Date Revenues - Fiscal Year 2005/06  
Final For the Month of June 2006  
100% of Year Completed

| FUND<br>REVENUE<br>SOURCE                 | ADOPTED<br>BUDGET | AMENDED<br>BUDGET | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD     | INCR (DECR)<br>FROM PRIOR<br>YTD | %<br>CHANGE |
|---|-------------------|-------------------|--------------------------|----------------|------------------|----------------------------------|-------------|
| <b>SPECIAL REVENUE FUNDS</b>              |                   |                   |                          |                |                  |                                  |             |
| <b><u>202 STREET MAINTENANCE</u></b>      |                   |                   |                          |                |                  |                                  |             |
| Gas Tax 2105 - 2107.5                     | 699,600           | 699,600           | 977,858                  | 140%           | 672,454          | 305,404                          | 45%         |
| CIP Grants                                | 3,325,000         | 3,325,000         |                          | n/a            |                  | -                                | n/a         |
| Reimbursement of Expenses                 | 26,000            | 26,000            | 78,383                   | 301%           |                  | 78,383                           | n/a         |
| Transfers In                              | 700,000           | 700,000           | 700,000                  | 100%           | 700,000          | -                                | n/a         |
| Project Reimbursement                     |                   | -                 | 258,417                  | n/a            | 331,868          | (73,451)                         | -22%        |
| Interest / Other Revenue/Other Charges    | 41,000            | 41,000            | 29,824                   | 73%            | 137,356          | (107,532)                        | -78%        |
| <b>202 STREET MAINTENANCE</b>             | <b>4,791,600</b>  | <b>4,791,600</b>  | <b>2,044,482</b>         | <b>43%</b>     | <b>1,841,678</b> | <b>202,804</b>                   | <b>11%</b>  |
| <b><u>204/205 PUBLIC SAFETY TRUST</u></b> |                   |                   |                          |                |                  |                                  |             |
| Interest Income                           | 8,885             | 8,885             | 7,929                    | 89%            | 8,242            | (313)                            | -4%         |
| Police Grant/SLEF                         | 100,000           | 100,000           | 100,000                  | 100%           | 101,200          | (1,200)                          | -1%         |
| <b>204/205 PUBLIC SAFETY TRUST</b>        | <b>108,885</b>    | <b>108,885</b>    | <b>107,929</b>           | <b>99%</b>     | <b>109,442</b>   | <b>(1,513)</b>                   | <b>-1%</b>  |
| <b><u>206 COMMUNITY DEVELOPMENT</u></b>   |                   |                   |                          |                |                  |                                  |             |
| Building Fees                             | 1,483,000         | 1,483,000         | 1,691,291                | 114%           | 1,906,947        | (215,656)                        | -11%        |
| Planning Fees                             | 616,800           | 616,800           | 652,172                  | 106%           | 671,181          | (19,009)                         | -3%         |
| Engineering Fees                          | 875,000           | 875,000           | 749,389                  | 86%            | 1,153,368        | (403,979)                        | -35%        |
| Other Revenue/Current Charges             | 48,620            | 48,620            | 85,805                   | 176%           | 103,466          | (17,661)                         | -17%        |
| Transfers                                 | -                 | -                 | n/a                      | n/a            | -                | -                                | n/a         |
| <b>206 COMMUNITY DEVELOPMENT</b>          | <b>3,023,420</b>  | <b>3,023,420</b>  | <b>3,178,657</b>         | <b>105%</b>    | <b>3,834,962</b> | <b>(656,305)</b>                 | <b>-17%</b> |
| <b>207 GENERAL PLAN UPDATE</b>            | <b>145,286</b>    | <b>225,286</b>    | <b>246,681</b>           | <b>109%</b>    | <b>127,690</b>   | <b>118,991</b>                   | <b>93%</b>  |
| <b><u>215 and 216 HCD BLOCK GRANT</u></b> |                   |                   |                          |                |                  |                                  |             |
| HCD allocation                            | 396,714           | 396,714           | 101,475                  | 26%            | 77,717           | 23,758                           | 31%         |
| CIP Grants                                | 100,000           | 100,000           |                          | n/a            |                  |                                  | n/a         |
| Interest Income/Other Revenue             | 1,460             | 1,460             | 4,816                    | 330%           | 19,397           | (14,581)                         | -75%        |
| <b>215 and 216 HCD BLOCK GRANT</b>        | <b>498,174</b>    | <b>498,174</b>    | <b>106,291</b>           | <b>21%</b>     | <b>97,114</b>    | <b>9,177</b>                     | <b>9%</b>   |
| <b>210 COMMUNITY CENTER</b>               | <b>3,500</b>      | <b>103,500</b>    | <b>107,162</b>           | <b>104%</b>    | <b>53,354</b>    | <b>53,808</b>                    | <b>101%</b> |
| <b>225 ASSET SEIZURE</b>                  | <b>1,664</b>      | <b>1,664</b>      | <b>305</b>               | <b>18%</b>     | <b>17,119</b>    | <b>(16,814)</b>                  | <b>-98%</b> |
| <b>229 LIGHTING AND LANDSCAPE</b>         | <b>138,000</b>    | <b>138,000</b>    | <b>150,161</b>           | <b>109%</b>    | <b>135,338</b>   | <b>14,823</b>                    | <b>11%</b>  |
| <b>232 ENVIRONMENTAL PROGRAMS</b>         | <b>533,050</b>    | <b>565,050</b>    | <b>494,411</b>           | <b>87%</b>     | <b>476,939</b>   | <b>17,472</b>                    | <b>4%</b>   |
| <b>234 MOBILE HOME PARK RENT STAB.</b>    | <b>9,873</b>      | <b>9,873</b>      | <b>11,684</b>            | <b>118%</b>    | <b>9,676</b>     | <b>2,008</b>                     | <b>21%</b>  |
| <b>235 SENIOR HOUSING</b>                 | <b>6,890</b>      | <b>6,890</b>      | <b>8,719</b>             | <b>127%</b>    | <b>6,740</b>     | <b>1,979</b>                     | <b>29%</b>  |
| <b>236 HOUSING MITIGATION</b>             | <b>140,000</b>    | <b>140,000</b>    | <b>418,000</b>           | <b>299%</b>    | <b>1,206,216</b> | <b>(788,216)</b>                 | <b>-65%</b> |
| <b>240 EMPLOYEE ASSISTANCE</b>            | <b>42,768</b>     | <b>42,768</b>     | <b>28,354</b>            | <b>66%</b>     | <b>35,441</b>    | <b>(7,087)</b>                   | <b>-20%</b> |
| <b>247 ENVIRONMENT REMEDIATION</b>        | <b>8,500</b>      | <b>8,500</b>      | <b>19,282</b>            | <b>227%</b>    | <b>15,349</b>    | <b>3,933</b>                     | <b>26%</b>  |
| <b>TOTAL SPECIAL REVENUE FUNDS</b>        | <b>9,451,610</b>  | <b>9,663,610</b>  | <b>6,922,118</b>         | <b>72%</b>     | <b>7,967,058</b> | <b>(1,044,940)</b>               | <b>-13%</b> |



City of Morgan Hill  
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| FUND<br>REVENUE<br>SOURCE               | ADOPTED<br>BUDGET | AMENDED<br>BUDGET | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD      | INCR (DECR)<br>FROM PRIOR<br>YTD | %<br>CHANGE |
|---|-------------------|-------------------|--------------------------|----------------|-------------------|----------------------------------|-------------|
| <b>CAPITAL PROJECTS FUNDS</b>           |                   |                   |                          |                |                   |                                  |             |
| 301 PARK DEVELOPMENT                    | 814,768           | 814,768           | 1,610,467                | 198%           | 1,288,615         | 321,852                          | 25%         |
| 302 PARK MAINTENANCE                    | 415,557           | 415,557           | 406,774                  | 98%            | 637,525           | (230,751)                        | -36%        |
| 303 LOCAL DRAINAGE                      | 1,276,297         | 1,276,297         | 423,389                  | 33%            | 765,848           | (342,459)                        | -45%        |
| 304 LOCAL DRAINAGE/NON AB1600           | 356,795           | 356,795           | 275,025                  | 77%            | 285,467           | (10,442)                         | -4%         |
| 306 OPEN SPACE                          | 170,972           | 170,972           | 315,168                  | 184%           | 551,699           | (236,531)                        | -43%        |
| 309 TRAFFIC MITIGATION                  | 1,128,092         | 1,128,092         | 1,765,568                | 157%           | 1,085,587         | 679,981                          | 63%         |
| 311 POLICE MITIGATION                   | 105,743           | 105,743           | 99,919                   | 94%            | 164,277           | (64,358)                         | -39%        |
| 313 FIRE MITIGATION                     | 195,345           | 195,345           | 211,098                  | 108%           | 179,461           | 31,637                           | 18%         |
| <b>317 RDA CAPITAL PROJECTS</b>         |                   |                   |                          |                |                   |                                  |             |
| Property Taxes & Supplemental Roll      | 15,169,461        | 19,769,461        | 20,015,688               | 101%           | 14,305,878        | 5,709,810                        | 40%         |
| Loan Proceeds                           | 4,500,000         | 4,500,000         | 729,771                  | 16%            |                   | 729,771                          | n/a         |
| Interest Income, Rents                  | 297,947           | 297,947           | 767,109                  | 257%           | 189,999           | 577,110                          | 304%        |
| Bond Proceeds                           |                   | 3,600,000         |                          | n/a            |                   | -                                | n/a         |
| Other Agencies/Current Charges/Transfer | -                 | -                 | 1,188,874                | n/a            | 465,771           | 723,103                          | 155%        |
| <b>317 RDA CAPITAL PROJECTS</b>         | <b>19,967,408</b> | <b>28,167,408</b> | <b>22,701,442</b>        | <b>81%</b>     | <b>14,961,648</b> | <b>7,739,794</b>                 | <b>52%</b>  |
| <b>327/328 RDA L/M HOUSING</b>          |                   |                   |                          |                |                   |                                  |             |
| Property Taxes & Supplemental Roll      | 4,402,175         | 4,402,175         | 5,003,922                | 114%           | 4,664,802         | 339,120                          | 7%          |
| Interest Income, Rent                   | 10,450            | 10,450            | 418,610                  | 4006%          | 397,409           | 21,201                           | 5%          |
| Transfers/Other                         | -                 | -                 | 1,099,316                | na             | 33,253            | 1,066,063                        | 3206%       |
| <b>327/328 RDA L/M HOUSING</b>          | <b>4,412,625</b>  | <b>4,412,625</b>  | <b>6,521,848</b>         | <b>148%</b>    | <b>5,095,464</b>  | <b>1,426,384</b>                 | <b>28%</b>  |
| 346 PUBLIC FACILITIES NON-AB1600        | 228,008           | 228,008           | 415,111                  | 182%           | 7,066,435         | (6,651,324)                      | -94%        |
| 347 PUBLIC FACILITIES                   | 77,720            | 77,720            | 365,215                  | 470%           | 121,785           | 243,430                          | 200%        |
| 348 LIBRARY                             | 123,155           | 123,155           | 200,914                  | 163%           | 83,346            | 117,568                          | 141%        |
| 350 UNDERGROUNDING                      | 189,883           | 189,883           | 56,502                   | 30%            | 193,520           | (137,018)                        | -71%        |
| 340/342 MH BUS.RANCH CIP I & II         | 3,145             | 3,145             | 943                      | 30%            | 1,681             | (738)                            | -44%        |
| 360 COMMUNITY/REC IMPACT FUND           | 80,719            | 80,719            | 113,629                  | 141%           | 64,515            | 49,114                           | 76%         |
| <b>TOTAL CAPITAL PROJECTS FUNDS</b>     | <b>29,546,232</b> | <b>37,746,232</b> | <b>35,483,012</b>        | <b>94%</b>     | <b>32,546,873</b> | <b>2,936,139</b>                 | <b>9%</b>   |
| <b>DEBT SERVICE FUNDS</b>               |                   |                   |                          |                |                   |                                  |             |
| 441 POLICE FACILITY BOND                | 483,763           | 545,660           | 498,880                  | 91%            | 578,872           | (79,992)                         | -14%        |
| 536 ENCINO HILLS                        | -                 | -                 |                          | n/a            |                   | -                                | n/a         |
| 539 MORGAN HILL BUSINESS PARK           | -                 | -                 |                          | n/a            |                   | -                                | n/a         |
| 542 SUTTER BUSINESS PARK                | -                 | -                 |                          | n/a            |                   | -                                | n/a         |
| 545 COCHRANE BUSINESS PARK              | 206,304           | 206,304           | 179,366                  | 87%            | 190,151           | (10,785)                         | -6%         |
| 551 JOLEEN WAY                          | 37,016            | 37,016            | 29,642                   | 80%            | 50,339            | (20,697)                         | -41%        |
| <b>TOTAL DEBT SERVICE FUNDS</b>         | <b>727,083</b>    | <b>788,980</b>    | <b>707,888</b>           | <b>90%</b>     | <b>819,362</b>    | <b>(111,474)</b>                 | <b>-14%</b> |





City of Morgan Hill  
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| FUND<br>REVENUE<br>SOURCE                | ADOPTED<br>BUDGET | AMENDED<br>BUDGET | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD      | INCR (DECR)<br>FROM PRIOR<br>YTD | %<br>CHANGE    |
|--|-------------------|-------------------|--------------------------|----------------|-------------------|----------------------------------|----------------|
| <b>ENTERPRISE FUNDS</b>                  |                   |                   |                          |                |                   |                                  |                |
| <b>640 SEWER OPERATION</b>               |                   |                   |                          |                |                   |                                  |                |
| Sewer Service Fees                       | 5,600,535         | 5,600,535         | 5,146,833                | 92%            | 5,340,106         | (193,273)                        | -4%            |
| Interest Income                          | 191,414           | 191,414           | 136,728                  | 71%            | 104,938           | 31,790                           | 30%            |
| Other Revenue/Current Charges            | 142,600           | 142,600           | 155,156                  | 109%           | 150,747           | 4,409                            | 3%             |
| <b>640 SEWER OPERATION</b>               | <b>5,934,549</b>  | <b>5,934,549</b>  | <b>5,438,717</b>         | <b>92%</b>     | <b>5,595,791</b>  | <b>(157,074)</b>                 | <b>-3%</b>     |
| <b>641 SEWER EXPANSION</b>               |                   |                   |                          |                |                   |                                  |                |
| Interest Income                          | 345,048           | 345,048           | 235,295                  | 68%            | 176,005           | 59,290                           | 34%            |
| Connection Fees                          | 1,560,000         | 1,560,000         | 2,575,217                | 165%           | 1,959,796         | 615,421                          | 31%            |
| Other                                    | -                 | -                 | 792                      | n/a            | 792               | -                                | n/a            |
| <b>641 SEWER EXPANSION</b>               | <b>1,905,048</b>  | <b>1,905,048</b>  | <b>2,811,304</b>         | <b>148%</b>    | <b>2,136,593</b>  | <b>674,711</b>                   | <b>32%</b>     |
| <b>642 SEWER RATE STABILIZATION</b>      | <b>119,167</b>    | <b>119,167</b>    | <b>642,272</b>           | <b>539%</b>    | <b>591,828</b>    | <b>50,444</b>                    | <b>9%</b>      |
| <b>643 SEWER-CAPITAL PROJECT</b>         | <b>294,560</b>    | <b>294,560</b>    | <b>49,457</b>            | <b>17%</b>     | <b>61,757</b>     | <b>(12,300)</b>                  | <b>-20%</b>    |
| <b>TOTAL SEWER FUNDS</b>                 | <b>8,253,324</b>  | <b>8,253,324</b>  | <b>8,941,750</b>         | <b>108%</b>    | <b>8,385,969</b>  | <b>555,781</b>                   | <b>7%</b>      |
| <b>650 WATER OPERATION</b>               |                   |                   |                          |                |                   |                                  |                |
| Water Sales                              | 6,229,900         | 6,229,900         | 6,104,302                | 98%            | 6,007,972         | 96,330                           | 2%             |
| Meter Install & Service                  | 70,000            | 70,000            | 57,040                   | 81%            | 112,814           | (55,774)                         | -49%           |
| Transfers-In, and Interest Income        | 472,202           | 472,202           | 404,931                  | 86%            | 781,409           | (376,478)                        | -48%           |
| Other Revenue/Current Charges            | 879,500           | 879,500           | 1,082,477                | 123%           | 799,730           | 282,747                          | 35%            |
| <b>650 WATER OPERATION</b>               | <b>7,651,602</b>  | <b>7,651,602</b>  | <b>7,648,750</b>         | <b>100%</b>    | <b>7,701,925</b>  | <b>(53,175)</b>                  | <b>-1%</b>     |
| <b>651 WATER EXPANSION</b>               |                   |                   |                          |                |                   |                                  |                |
| Interest Income/Other Revenue/Transfer   | 207,076           | 207,076           | 498,135                  | 241%           | 5,255,395         | (4,757,260)                      | -91%           |
| Water Connection Fees                    | 362,000           | 362,000           | 510,554                  | 141%           | 479,752           | 30,802                           | 6%             |
| <b>651 WATER EXPANSION</b>               | <b>569,076</b>    | <b>569,076</b>    | <b>1,008,689</b>         | <b>177%</b>    | <b>5,735,147</b>  | <b>(4,726,458)</b>               | <b>-82%</b>    |
| <b>652 Water Rate Stabilization</b>      | <b>702,000</b>    | <b>702,000</b>    | <b>711,726</b>           | <b>101%</b>    | <b>709</b>        | <b>711,017</b>                   | <b>100284%</b> |
| <b>653 Water Capital Project</b>         | <b>297,217</b>    | <b>297,217</b>    | <b>119,222</b>           | <b>40%</b>     | <b>2,494,677</b>  | <b>(2,375,455)</b>               | <b>-95%</b>    |
| <b>TOTAL WATER FUNDS</b>                 | <b>9,219,895</b>  | <b>9,219,895</b>  | <b>9,488,387</b>         | <b>103%</b>    | <b>15,932,458</b> | <b>(6,444,071)</b>               | <b>-40%</b>    |
| <b>TOTAL ENTERPRISE FUNDS</b>            | <b>17,473,219</b> | <b>17,473,219</b> | <b>18,430,137</b>        | <b>105%</b>    | <b>24,318,427</b> | <b>(5,888,290)</b>               | <b>-24%</b>    |
| <b>INTERNAL SERVICE FUNDS</b>            |                   |                   |                          |                |                   |                                  |                |
| <b>730 INFORMATION SERVICES</b>          | <b>254,202</b>    | <b>254,202</b>    | <b>260,057</b>           | <b>102%</b>    | <b>305,505</b>    | <b>(45,448)</b>                  | <b>-15%</b>    |
| <b>740 BUILDING MAINTENANCE SERVICES</b> | <b>1,666,477</b>  | <b>1,666,477</b>  | <b>1,537,319</b>         | <b>92%</b>     | <b>1,613,606</b>  | <b>(76,287)</b>                  | <b>-5%</b>     |
| <b>745 CIP ADMINISTRATION</b>            | <b>1,415,000</b>  | <b>1,415,000</b>  | <b>1,229,831</b>         | <b>87%</b>     | <b>1,171,244</b>  | <b>58,587</b>                    | <b>5%</b>      |
| <b>760 UNEMPLOYMENT INSURANCE</b>        | <b>58,305</b>     | <b>58,305</b>     | <b>58,306</b>            | <b>100%</b>    | <b>30,305</b>     | <b>28,001</b>                    | <b>92%</b>     |
| <b>770 WORKERS COMPENSATION</b>          | <b>920,509</b>    | <b>920,509</b>    | <b>836,158</b>           | <b>91%</b>     | <b>734,119</b>    | <b>102,039</b>                   | <b>14%</b>     |
| <b>790 EQUIPMENT REPLACEMENT</b>         | <b>538,545</b>    | <b>552,063</b>    | <b>550,471</b>           | <b>100%</b>    | <b>384,803</b>    | <b>165,668</b>                   | <b>43%</b>     |
| <b>793 CORPORATION YARD COMMISSION</b>   | <b>14,350</b>     | <b>159,100</b>    | <b>128,683</b>           | <b>81%</b>     | <b>70,700</b>     | <b>57,983</b>                    | <b>82%</b>     |
| <b>795 GENERAL LIABILITY INSURANCE</b>   | <b>506,470</b>    | <b>506,470</b>    | <b>535,255</b>           | <b>106%</b>    | <b>450,732</b>    | <b>84,523</b>                    | <b>19%</b>     |
| <b>TOTAL INTERNAL SERVICE FUNDS</b>      | <b>5,373,858</b>  | <b>5,532,126</b>  | <b>5,136,080</b>         | <b>93%</b>     | <b>4,761,014</b>  | <b>375,066</b>                   | <b>8%</b>      |





City of Morgan Hill  
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| FUND<br>REVENUE<br>SOURCE             | ADOPTED<br>BUDGET | AMENDED<br>BUDGET | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD      | INCR (DECR)<br>FROM PRIOR<br>YTD | %<br>CHANGE |
|---------------------------------------|-------------------|-------------------|--------------------------|----------------|-------------------|----------------------------------|-------------|
| <b>AGENCY FUNDS</b>                   |                   |                   |                          |                |                   |                                  |             |
| 843 M.H. BUS.RANCH 1998               | 898,976           | 898,976           | 893,040                  | 99%            | 1,120,738         | (227,698)                        | -20%        |
| 844,842,841 M.H. RANCH REFUNDING 2004 | 612,433           | 900,619           | 877,335                  | 97%            | 1,356,313         | (478,978)                        | -35%        |
| 845,846 MADRONE BP-A/B                | 553,771           | 553,771           | 1,504,683                | 272%           | 1,096,689         | 407,994                          | 37%         |
| 848 TENNANT AVE.BUS.PK A.D.           | 12,909            | 12,909            | 16,375                   | 127%           | 39,321            | (22,946)                         | -58%        |
| 881 POLICE DONATION TRUST FUND        | 642               | 642               | 673                      | 105%           | 573               | 100                              | 17%         |
| <b>TOTAL AGENCY FUNDS</b>             | <b>2,078,731</b>  | <b>2,366,917</b>  | <b>3,292,106</b>         | <b>139%</b>    | <b>3,613,634</b>  | <b>(321,528)</b>                 | <b>-9%</b>  |
| <b>TOTAL FOR ALL FUNDS</b>            | <b>83,383,034</b> | <b>92,424,730</b> | <b>90,307,397</b>        | <b>98%</b>     | <b>91,702,160</b> | <b>1,636,312</b>                 | <b>2%</b>   |



City of Morgan Hill  
Year to Date Expenses - Fiscal Year 2005/06  
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100% of Year Completed

| FUND NO.                          | FUND/ACTIVITY                          | THIS MONTH ACTUAL EXPENSES | AMENDED BUDGET    | YTD EXPENSES      | OUTSTANDING ENCUMBRANCE | TOTAL ALLOCATED   | PERCENT OF TOTAL TO BUDGET | PRIOR YTD         |
|-----------------------------------|--|----------------------------|-------------------|-------------------|-------------------------|-------------------|----------------------------|-------------------|
| <b>010 GENERAL FUND</b>           |  |                            |                   |                   |                         |                   |                            |                   |
| <b>I. GENERAL GOVERNMENT</b>      |  |                            |                   |                   |                         |                   |                            |                   |
|                                   | <b>COUNCIL AND MISCELLANEOUS GOVT.</b> |                            |                   |                   |                         |                   |                            |                   |
|                                   | City Council                           | 38,721                     | 207,749           | 202,727           | 500                     | 203,227           | 98%                        | 227,858           |
|                                   | Community Promotions                   | 6,968                      | 52,882            | 45,367            | -                       | 45,367            | 86%                        | 31,688            |
|                                   | <b>COUNCIL AND MISCELLANEOUS GOVT.</b> | <b>45,689</b>              | <b>260,631</b>    | <b>248,094</b>    | <b>500</b>              | <b>248,594</b>    | <b>95%</b>                 | <b>259,546</b>    |
|                                   | <b>CITY ATTORNEY</b>                   | <b>79,421</b>              | <b>844,690</b>    | <b>785,267</b>    | <b>62,279</b>           | <b>847,546</b>    | <b>100%</b>                | <b>1,061,611</b>  |
|                                   | <b>CITY MANAGER</b>                    |                            |                   |                   |                         |                   |                            |                   |
|                                   | City Manager                           | 28,702                     | 330,948           | 331,417           |                         | 331,417           | 100%                       | 315,997           |
|                                   | Cable Television                       | 936                        | 37,611            | 31,445            | 716                     | 32,161            | 86%                        | 43,478            |
|                                   | Communications & Marketing             | 6,944                      | 181,792           | 176,732           | -                       | 176,732           | 97%                        | 66,193            |
|                                   | <b>CITY MANAGER</b>                    | <b>36,582</b>              | <b>550,351</b>    | <b>539,594</b>    | <b>716</b>              | <b>540,310</b>    | <b>98%</b>                 | <b>425,668</b>    |
|                                   | <b>RECREATION</b>                      |                            |                   |                   |                         |                   |                            |                   |
|                                   | Recreation                             | 108,934                    | 311,071           | 311,517           |                         | 311,517           | 100%                       | 312,574           |
|                                   | Community & Cultural Center            | 35,107                     | 1,280,015         | 1,152,971         | 48,692                  | 1,201,663         | 94%                        | 1,036,609         |
|                                   | Aquatics Center                        | 110,940                    | 1,403,838         | 1,356,989         | 7,499                   | 1,364,488         | 97%                        | 1,426,926         |
|                                   | Centennial Recreation Center           | 58,873                     | 97,665            | 72,713            | 1,503                   | 74,216            | 76%                        | -                 |
|                                   | <b>RECREATION</b>                      | <b>313,854</b>             | <b>3,092,589</b>  | <b>2,894,190</b>  | <b>57,694</b>           | <b>2,951,884</b>  | <b>95%</b>                 | <b>2,776,109</b>  |
|                                   | <b>HUMAN RESOURCES</b>                 |                            |                   |                   |                         |                   |                            |                   |
|                                   | Human Resources                        | 40,381                     | 488,604           | 466,130           | -                       | 466,130           | 95%                        | 539,641           |
|                                   | <b>HUMAN RESOURCES</b>                 | <b>40,381</b>              | <b>488,604</b>    | <b>466,130</b>    | <b>-</b>                | <b>466,130</b>    | <b>95%</b>                 | <b>539,641</b>    |
|                                   | <b>COUNCIL SERV &amp; RECORDS MGMT</b> |                            |                   |                   |                         |                   |                            |                   |
|                                   | Council Serv & Records Mgmt            | 27,885                     | 258,991           | 255,989           | 3,045                   | 259,034           | 100%                       | 265,072           |
|                                   | Elections                              | 28,861                     | 123,788           | 70,749            | -                       | 70,749            | 57%                        | 86,165            |
|                                   | <b>CITY CLERK</b>                      | <b>56,746</b>              | <b>382,779</b>    | <b>326,738</b>    | <b>3,045</b>            | <b>329,783</b>    | <b>86%</b>                 | <b>351,237</b>    |
|                                   | <b>FINANCE</b>                         | <b>69,267</b>              | <b>982,085</b>    | <b>942,628</b>    | <b>-</b>                | <b>942,628</b>    | <b>96%</b>                 | <b>898,249</b>    |
|                                   | <b>TOTAL GENERAL GOVERNMENT</b>        | <b>641,940</b>             | <b>6,601,729</b>  | <b>6,202,641</b>  | <b>124,234</b>          | <b>6,326,875</b>  | <b>96%</b>                 | <b>6,312,061</b>  |
| <b>II. PUBLIC SAFETY</b>          |  |                            |                   |                   |                         |                   |                            |                   |
|                                   | <b>POLICE</b>                          |                            |                   |                   |                         |                   |                            |                   |
|                                   | PD Administration                      | 45,714                     | 812,406           | 794,742           |                         | 794,742           | 98%                        | 663,159           |
|                                   | Field Operations                       | 347,939                    | 4,236,902         | 4,642,547         | 38,635                  | 4,681,182         | 110%                       | 4,038,668         |
|                                   | Support Services                       | 75,665                     | 1,084,293         | 964,285           |                         | 964,285           | 89%                        | 915,834           |
|                                   | Emergency Services/Haz Mat             | 5,934                      | 53,507            | 49,207            | -                       | 49,207            | 92%                        | 16,327            |
|                                   | Special Operations                     | 109,816                    | 1,486,523         | 1,373,007         | 3,716                   | 1,376,723         | 93%                        | 1,345,602         |
|                                   | Animal Control                         | 7,420                      | 102,859           | 88,588            |                         | 88,588            | 86%                        | 89,950            |
|                                   | Dispatch Services                      | 71,000                     | 1,082,981         | 869,346           |                         | 869,346           | 80%                        | 848,015           |
|                                   | <b>POLICE</b>                          | <b>663,488</b>             | <b>8,859,471</b>  | <b>8,781,722</b>  | <b>42,351</b>           | <b>8,824,073</b>  | <b>100%</b>                | <b>7,917,555</b>  |
|                                   | <b>FIRE</b>                            | <b>360,515</b>             | <b>4,377,495</b>  | <b>4,361,361</b>  | <b>1,973</b>            | <b>4,363,334</b>  | <b>100%</b>                | <b>4,194,484</b>  |
|                                   | <b>TOTAL PUBLIC SAFETY</b>             | <b>1,024,003</b>           | <b>13,236,966</b> | <b>13,143,083</b> | <b>44,324</b>           | <b>13,187,407</b> | <b>100%</b>                | <b>12,112,039</b> |
| <b>III. COMMUNITY IMPROVEMENT</b> |  |                            |                   |                   |                         |                   |                            |                   |
|                                   | <b>PARK MAINTENANCE</b>                | <b>85,324</b>              | <b>711,485</b>    | <b>651,995</b>    | <b>11,608</b>           | <b>663,603</b>    | <b>93%</b>                 | <b>685,682</b>    |
|                                   | <b>TOTAL COMMUNITY IMPROVEMENT</b>     | <b>85,324</b>              | <b>711,485</b>    | <b>651,995</b>    | <b>11,608</b>           | <b>663,603</b>    | <b>93%</b>                 | <b>685,682</b>    |



City of Morgan Hill  
Year to Date Expenses - Fiscal Year 2005/06  
Final For the Month of June 2006  
100% of Year Completed

| FUND NO.                              | FUND/ACTIVITY                         | THIS MONTH ACTUAL EXPENSES | AMENDED BUDGET    | YTD EXPENSES      | OUTSTANDING ENCUMBRANCE | TOTAL ALLOCATED   | PERCENT OF TOTAL TO BUDGET | PRIOR YTD         |
|---------------------------------------|---------------------------------------|----------------------------|-------------------|-------------------|-------------------------|-------------------|----------------------------|-------------------|
| <b>IV. TRANSFERS</b>                  |                                       |                            |                   |                   |                         |                   |                            |                   |
|                                       | General Plan Update                   | 833                        | 10,000            | 10,000            | -                       | 10,000            | 100%                       |                   |
|                                       | Other                                 | 100,000                    | 100,000           | 100,000           |                         | 100,000           | 100%                       | 99,025            |
|                                       | <b>TOTAL TRANSFERS</b>                | <b>100,833</b>             | <b>110,000</b>    | <b>110,000</b>    | <b>-</b>                | <b>110,000</b>    | <b>100%</b>                | <b>99,025</b>     |
| <b>TOTAL GENERAL FUND</b>             |                                       | <b>1,852,100</b>           | <b>20,660,180</b> | <b>20,107,719</b> | <b>180,166</b>          | <b>20,287,885</b> | <b>98%</b>                 | <b>19,208,807</b> |
| <b>SPECIAL REVENUE FUNDS</b>          |                                       |                            |                   |                   |                         |                   |                            |                   |
| <b>202 STREET MAINTENANCE</b>         |                                       |                            |                   |                   |                         |                   |                            |                   |
|                                       | Street Maintenance/Traffic            | 313,863                    | 1,909,134         | 1,865,608         | 97,732                  | 1,963,340         | 103%                       | 1,567,298         |
|                                       | Congestion Management                 | 2,736                      | 84,994            | 68,270            | -                       | 68,270            | 80%                        | 66,490            |
|                                       | Street CIP                            | 147,468                    | 3,505,127         | 647,468           | 443,667                 | 1,091,135         | 31%                        | 460,558           |
|                                       | <b>202 STREET MAINTENANCE</b>         | <b>464,067</b>             | <b>5,499,255</b>  | <b>2,581,346</b>  | <b>541,399</b>          | <b>3,122,745</b>  | <b>57%</b>                 | <b>2,094,346</b>  |
| 204/205                               | <b>PUBLIC SAFETY/SUPP.LAW</b>         | <b>37,889</b>              | <b>175,519</b>    | <b>198,781</b>    |                         | <b>198,781</b>    | <b>113%</b>                | <b>175,520</b>    |
| <b>206 COMMUNITY DEVELOPMENT FUND</b> |                                       |                            |                   |                   |                         |                   |                            |                   |
|                                       | Planning                              | 103,791                    | 1,323,007         | 1,157,086         | 90,161                  | 1,247,247         | 94%                        | 1,160,519         |
|                                       | Building                              | 114,648                    | 1,205,323         | 1,093,943         | 45,854                  | 1,139,797         | 95%                        | 876,237           |
|                                       | PW-Engineering                        | 125,598                    | 1,188,372         | 1,121,789         | 59,838                  | 1,181,627         | 99%                        | 931,340           |
|                                       | <b>206 COMMUNITY DEVELOPMENT FUND</b> | <b>344,037</b>             | <b>3,716,702</b>  | <b>3,372,818</b>  | <b>195,853</b>          | <b>3,568,671</b>  | <b>96%</b>                 | <b>2,968,096</b>  |
| 207                                   | <b>GENERAL PLAN UPDATE</b>            | <b>5,332</b>               | <b>353,205</b>    | <b>187,489</b>    | <b>54,865</b>           | <b>242,354</b>    | <b>69%</b>                 | <b>54,802</b>     |
| 210                                   | <b>COMMUNITY CENTER</b>               | <b>72,713</b>              | <b>154,440</b>    | <b>72,713</b>     |                         | <b>72,713</b>     | <b>47%</b>                 |                   |
| 215/216                               | <b>CDBG</b>                           | <b>87,568</b>              | <b>758,420</b>    | <b>200,187</b>    | <b>129,741</b>          | <b>329,928</b>    | <b>44%</b>                 | <b>175,930</b>    |
| 225                                   | <b>ASSET SEIZURE</b>                  |                            | -                 | 300               |                         | 300               | n/a                        | 47,196            |
| 229                                   | <b>LIGHTING AND LANDSCAPE</b>         | <b>10,807</b>              | <b>145,603</b>    | <b>144,421</b>    | <b>11,611</b>           | <b>156,032</b>    | <b>107%</b>                | <b>138,590</b>    |
| 232                                   | <b>ENVIRONMENT PROGRAMS</b>           | <b>96,657</b>              | <b>479,055</b>    | <b>411,955</b>    | <b>40,901</b>           | <b>452,856</b>    | <b>95%</b>                 | <b>375,149</b>    |
| 234                                   | <b>MOBILE HOME PARK</b>               | <b>166,413</b>             | <b>4,832</b>      | <b>167,771</b>    |                         | <b>167,771</b>    | <b>3472%</b>               | <b>11,223</b>     |
| 235                                   | <b>SENIOR HOUSING TRUST FUND</b>      | -                          | 80,700            | 3,275             | -                       | 3,275             | 4%                         | 9,266             |
| 236                                   | <b>HOUSING MITIGATION FUND</b>        | <b>1,850</b>               | <b>1,315,000</b>  | <b>15,029</b>     | -                       | <b>15,029</b>     | <b>1%</b>                  | <b>15,000</b>     |
| 240                                   | <b>EMPLOYEE ASSISTANCE</b>            | <b>3,287</b>               | <b>107,500</b>    | <b>28,362</b>     | -                       | <b>28,362</b>     | <b>26%</b>                 | <b>40,198</b>     |
| 247                                   | <b>ENVIRONMENT REMEDIATION FUND</b>   |                            | <b>152,500</b>    | <b>73,235</b>     | -                       | <b>73,235</b>     | <b>48%</b>                 |                   |
| <b>TOTAL SPECIAL REVENUE FUNDS</b>    |                                       | <b>1,290,620</b>           | <b>12,942,731</b> | <b>7,457,682</b>  | <b>974,370</b>          | <b>8,432,052</b>  | <b>65%</b>                 | <b>6,105,316</b>  |
| <b>CAPITAL PROJECT FUNDS</b>          |                                       |                            |                   |                   |                         |                   |                            |                   |
| 301                                   | <b>PARK DEVELOPMENT</b>               | <b>35,087</b>              | <b>3,207,511</b>  | <b>213,657</b>    | <b>389,818</b>          | <b>603,475</b>    | <b>19%</b>                 | <b>108,970</b>    |
| 302                                   | <b>PARK MAINTENANCE</b>               | <b>38,568</b>              | <b>470,312</b>    | <b>167,003</b>    | <b>2,564</b>            | <b>169,567</b>    | <b>36%</b>                 | <b>138,444</b>    |
| 303                                   | <b>LOCAL DRAINAGE</b>                 | <b>131</b>                 | <b>1,917,534</b>  | <b>12,376</b>     |                         | <b>12,376</b>     | <b>1%</b>                  | <b>1,536</b>      |
| 304                                   | <b>LOCAL DRAIN. NON-AB1600</b>        | <b>263,025</b>             | <b>1,277,666</b>  | <b>678,263</b>    | <b>178,366</b>          | <b>856,629</b>    | <b>67%</b>                 | <b>84,811</b>     |
| 306                                   | <b>OPEN SPACE</b>                     | <b>830</b>                 |                   | <b>2,969</b>      |                         | <b>2,969</b>      | <b>n/a</b>                 | <b>2,879</b>      |
| 309                                   | <b>TRAFFIC MITIGATION</b>             | <b>216,451</b>             | <b>2,133,232</b>  | <b>824,203</b>    | <b>935,919</b>          | <b>1,760,122</b>  | <b>83%</b>                 | <b>652,571</b>    |
| 311                                   | <b>POLICE MITIGATION</b>              | <b>495</b>                 | <b>260,887</b>    | <b>218,437</b>    | -                       | <b>218,437</b>    | <b>84%</b>                 | <b>70,821</b>     |
| 313                                   | <b>FIRE MITIGATION</b>                | <b>116</b>                 | <b>526,378</b>    | <b>1,379</b>      |                         | <b>1,379</b>      | <b>0%</b>                  | <b>1,380</b>      |
| 317                                   | <b>RDA BUSINESS ASSISTANCE</b>        | <b>4,637,184</b>           | <b>50,556,349</b> | <b>25,514,016</b> | <b>16,269,079</b>       | <b>41,783,095</b> | <b>83%</b>                 | <b>8,438,123</b>  |
| 327/328                               | <b>RDA HOUSING</b>                    | <b>448,405</b>             | <b>10,209,748</b> | <b>5,087,081</b>  | <b>93,884</b>           | <b>5,180,965</b>  | <b>51%</b>                 | <b>5,353,323</b>  |
| 340/342                               | <b>MH BUS RANCH CIP</b>               |                            |                   |                   |                         | -                 | n/a                        | 82,144            |
| 346                                   | <b>PUBLIC FAC.NON AB1600</b>          | <b>(39,409)</b>            | <b>738,165</b>    | <b>325,688</b>    | <b>395,771</b>          | <b>721,459</b>    | <b>98%</b>                 | <b>7,317,939</b>  |
| 347                                   | <b>PUBLIC FACILITIES</b>              | <b>117</b>                 | <b>71,363</b>     | <b>65,594</b>     | -                       | <b>65,594</b>     | <b>92%</b>                 | <b>1,365</b>      |
| 348                                   | <b>LIBRARY IMPACT</b>                 | <b>29,597</b>              | <b>650,202</b>    | <b>29,782</b>     | <b>620,421</b>          | <b>650,203</b>    | <b>100%</b>                | <b>202</b>        |
| 350                                   | <b>UNDERGROUNDING</b>                 | <b>813,073</b>             | <b>1,119,347</b>  | <b>1,010,509</b>  | <b>157,806</b>          | <b>1,168,315</b>  | <b>104%</b>                | <b>320,777</b>    |
| 360                                   | <b>COMM/REC CTR IMPACT</b>            | <b>85</b>                  | <b>180,000</b>    | <b>6,175</b>      |                         | <b>6,175</b>      | <b>3%</b>                  |                   |
| <b>TOTAL CAPITAL PROJECTS FUNDS</b>   |                                       | <b>6,443,755</b>           | <b>73,318,694</b> | <b>34,157,132</b> | <b>19,043,628</b>       | <b>53,200,760</b> | <b>73%</b>                 | <b>22,575,285</b> |



City of Morgan Hill  
Year to Date Expenses - Fiscal Year 2005/06  
Final For the Month of June 2006  
100% of Year Completed

| FUND NO.                            | FUND/ACTIVITY             | THIS MONTH ACTUAL EXPENSES | AMENDED BUDGET     | YTD EXPENSES      | OUTSTANDING ENCUMBRANCE | TOTAL ALLOCATED    | PERCENT OF TOTAL TO BUDGET | PRIOR YTD         |
|-------------------------------------|---------------------------|----------------------------|--------------------|-------------------|-------------------------|--------------------|----------------------------|-------------------|
| <b>DEBT SERVICE FUNDS</b>           |                           |                            |                    |                   |                         |                    |                            |                   |
| 441                                 | POLICE FACILITY BOND DEBT | 8                          | 483,763            | 483,787           | -                       | 483,787            | 100%                       | 122,344           |
| 545                                 | COCHRANE BUS. PARK A.D.   | 561                        | 194,625            | 196,520           | -                       | 196,520            | 101%                       | 192,842           |
| 551                                 | JOLEEN WAY A.D.           | 561                        | 36,487             | 36,327            | -                       | 36,327             | 100%                       | 39,482            |
| <b>TOTAL DEBT SERVICE FUNDS</b>     |                           | <b>1,130</b>               | <b>714,875</b>     | <b>716,634</b>    | <b>-</b>                | <b>716,634</b>     | <b>100%</b>                | <b>354,668</b>    |
| <b>ENTERPRISE FUNDS</b>             |                           |                            |                    |                   |                         |                    |                            |                   |
| <b>SEWER</b>                        |                           |                            |                    |                   |                         |                    |                            |                   |
| 640                                 | SEWER OPERATION           | 494,848                    | 6,843,978          | 6,723,697         | 46,155                  | 6,769,852          | 99%                        | 6,223,375         |
| 641                                 | CAPITAL EXPANSION         | 249,755                    | 3,413,501          | 2,651,578         | 138,572                 | 2,790,150          | 82%                        | 1,064,892         |
| 642                                 | SEWER RATE STABILIZATION  | 176                        | 2,114              | 2,114             | -                       | 2,114              | 100%                       | 2,117             |
| 643                                 | SEWER-CAPITAL PROJECTS    | 26,552                     | 1,064,115          | 878,774           | 62,976                  | 941,750            | 89%                        | 874,569           |
| <b>TOTAL SEWER FUND(S)</b>          |                           | <b>771,331</b>             | <b>11,323,708</b>  | <b>10,256,163</b> | <b>247,703</b>          | <b>10,503,866</b>  | <b>93%</b>                 | <b>8,164,953</b>  |
| <b>WATER</b>                        |                           |                            |                    |                   |                         |                    |                            |                   |
|                                     | Water Operations Division | 1,027,561                  | 7,588,129          | 6,989,052         | 159,363                 | 7,148,415          | 94%                        | 6,044,512         |
|                                     | Meter Reading/Repair      | 64,383                     | 781,457            | 714,518           | 47,751                  | 762,269            | 98%                        | 694,716           |
|                                     | Utility Billing           | 53,351                     | 460,975            | 428,729           | -                       | 428,729            | 93%                        | 393,029           |
|                                     | Water Conservation        | 3,873                      | 124,707            | 61,826            | 50,000                  | 111,826            | 90%                        | 49,139            |
| 650                                 | WATER OPERATIONS          | 1,149,168                  | 8,955,268          | 8,194,125         | 257,114                 | 8,451,239          | 94%                        | 7,181,396         |
| 651                                 | CAPITAL EXPANSION         | 226,057                    | 2,229,644          | 1,623,077         | 181,843                 | 1,804,920          | 81%                        | 1,742,202         |
| 652                                 | WATER RATE STABILIZATION  | 41                         | 492                | 492               | -                       | 492                | 100%                       | 493               |
| 653                                 | WATER-CAPITAL PROJECTS    | 288,122                    | 2,445,904          | 1,679,961         | 85,948                  | 1,765,909          | 72%                        | 2,173,494         |
| <b>TOTAL WATER FUND(S)</b>          |                           | <b>1,663,388</b>           | <b>13,631,308</b>  | <b>11,497,655</b> | <b>524,905</b>          | <b>12,022,560</b>  | <b>88%</b>                 | <b>11,097,585</b> |
| <b>TOTAL ENTERPRISE FUNDS</b>       |                           | <b>2,434,719</b>           | <b>24,955,016</b>  | <b>21,753,818</b> | <b>772,608</b>          | <b>22,526,426</b>  | <b>90%</b>                 | <b>19,262,538</b> |
| <b>INTERNAL SERVICE FUNDS</b>       |                           |                            |                    |                   |                         |                    |                            |                   |
| 730                                 | INFORMATION SERVICES      | 90,537                     | 345,465            | 260,057           | 70,121                  | 330,178            | 96%                        | 474,956           |
| 740                                 | BUILDING MAINTENANCE      | 159,279                    | 1,383,291          | 1,289,032         | 45,316                  | 1,334,348          | 96%                        | 1,303,626         |
| 745                                 | CIP ENGINEERING           | 141,441                    | 1,398,174          | 1,292,982         | 47,308                  | 1,340,290          | 96%                        | 1,196,563         |
| 760                                 | UNEMPLOYMENT              | -                          | 55,000             | 9,429             | -                       | 9,429              | 17%                        | 32,983            |
| 770                                 | WORKERS COMPENSATION      | 28,357                     | 770,075            | 369,900           | -                       | 369,900            | 48%                        | 634,279           |
| 790                                 | EQUIPMENT REPLACEMENT     | 32,840                     | 483,345            | 283,083           | 185,954                 | 469,037            | 97%                        | 208,780           |
| 793                                 | CORP YARD COMMISSION      | 19,602                     | 166,051            | 120,369           | 12,125                  | 132,494            | 80%                        | 129,431           |
| 795                                 | GEN. LIABILITY INSURANCE  | 26,696                     | 480,800            | 359,538           | -                       | 359,538            | 75%                        | 492,816           |
| <b>TOTAL INTERNAL SERVICE FUNDS</b> |                           | <b>498,752</b>             | <b>5,082,201</b>   | <b>3,984,390</b>  | <b>360,824</b>          | <b>4,345,214</b>   | <b>85%</b>                 | <b>4,473,434</b>  |
| <b>AGENCY FUNDS</b>                 |                           |                            |                    |                   |                         |                    |                            |                   |
| 843                                 | MORGAN HILL BUS RANCH 98  | 2,721                      | 867,265            | 874,614           | -                       | 874,614            | 101%                       | 869,120           |
| 844/841/842                         | MH RANCH RSMNT 2004A      | 942                        | 883,769            | 905,013           | -                       | 905,013            | 102%                       | 906,312           |
| 845/846                             | MADRONE BP A/B            | (31,789)                   | 530,702            | 1,159,573         | -                       | 1,159,573          | 218%                       | 1,517,784         |
| 848                                 | TENNANT AVE BUS PARK AD   | 559                        | 6,727              | 10,038            | -                       | 10,038             | 149%                       | -                 |
| 881                                 | POLICE DONATION TRUST     | -                          | 13,010             | 4,228             | -                       | 4,228              | 32%                        | -                 |
| <b>TOTAL AGENCY FUNDS</b>           |                           | <b>(27,567)</b>            | <b>2,301,473</b>   | <b>2,953,466</b>  | <b>-</b>                | <b>2,953,466</b>   | <b>128%</b>                | <b>3,293,216</b>  |
| <b>REPORT TOTAL</b>                 |                           | <b>12,493,509</b>          | <b>139,975,170</b> | <b>91,130,841</b> | <b>21,331,596</b>       | <b>112,462,437</b> | <b>80%</b>                 | <b>75,273,264</b> |



YTD INCOME STATEMENT FOR CURRENT AND PRIOR YEAR

|   | Sewer Operations    |                       |             |                     | Water Operations      |                     |             |                   |
|---|---------------------|-----------------------|-------------|---------------------|-----------------------|---------------------|-------------|-------------------|
|   | Budget              | YTD                   | % of Budget | Prior YTD           | Budget                | YTD                 | % of Budget | Prior YTD         |
| <b>Operations</b>                           |                     |                       |             |                     |                       |                     |             |                   |
| <b>Revenues</b>                             |                     |                       |             |                     |                       |                     |             |                   |
| Service Charges                             | \$ 5,600,535        | \$ 5,146,833          | 92%         | \$ 5,340,106        | \$ 6,229,900          | \$ 6,104,302        | 98%         | \$ 6,007,972      |
| Meter Install & Service                     |                     |                       |             |                     | 70,000                | 57,040              | 81%         | 112,814           |
| Other                                       | 142,600             | 155,156               | 109%        | 150,747             | 879,500               | 1,100,477           | 125%        | 758,326           |
| <b>Total Operating Revenues</b>             | <b>5,743,135</b>    | <b>5,301,989</b>      | <b>92%</b>  | <b>5,490,853</b>    | <b>7,179,400</b>      | <b>7,261,819</b>    | <b>101%</b> | <b>6,879,112</b>  |
| <b>Expenses</b>                             |                     |                       |             |                     |                       |                     |             |                   |
| Operations                                  | 4,808,500           | 4,688,219             | 97%         | 4,463,323           | 6,026,686             | 5,325,431           | 88%         | 4,808,991         |
| Meter Reading/Repair                        |                     |                       |             |                     | 781,457               | 714,518             | 91%         | 646,348           |
| Utility Billing/Water Conservation          |                     |                       |             |                     | 585,682               | 490,555             | 84%         | 433,718           |
| <b>Total Operating Expenses</b>             | <b>4,808,500</b>    | <b>4,688,219</b>      | <b>97%</b>  | <b>4,463,323</b>    | <b>7,393,825</b>      | <b>6,530,504</b>    | <b>88%</b>  | <b>5,889,057</b>  |
| <b>Operating Income (Loss)</b>              | <b>934,635</b>      | <b>613,770</b>        |             | <b>1,027,530</b>    | <b>(214,425)</b>      | <b>731,315</b>      |             | <b>990,055</b>    |
| <b>Nonoperating revenue (expense)</b>       |                     |                       |             |                     |                       |                     |             |                   |
| Interest Income                             | 191,414             | 136,728               | 71%         | 104,938             | 241,714               | 156,443             | 65%         | 122,181           |
| Interest Expense/Debt Services              | (558,790)           | (558,790)             | 100%        | (572,296)           | (258,084)             | (258,105)           | 100%        | (238,464)         |
| Principal Expense/Debt Services             | (995,000)           | (995,000)             | 100%        | (975,000)           | (173,359)             | (275,516)           | 159%        | (217,962)         |
| <b>Total Nonoperating revenue (expense)</b> | <b>(1,362,376)</b>  | <b>(1,417,062)</b>    |             | <b>(1,442,358)</b>  | <b>(189,729)</b>      | <b>(377,178)</b>    |             | <b>(334,245)</b>  |
| Income before operating xfers               | (427,741)           | (803,292)             |             | (414,828)           | (404,154)             | 354,137             |             | 655,810           |
| Operating transfers in                      | -                   | -                     |             | -                   | 230,488               | 230,488             | 100%        |                   |
| Operating transfers (out)                   | (481,688)           | (481,688)             | 100%        | (220,000)           | (1,130,000)           | (1,130,000)         | 100%        | (385,000)         |
| <b>Net Income (Loss)</b>                    | <b>\$ (909,429)</b> | <b>\$ (1,284,980)</b> |             | <b>\$ (634,828)</b> | <b>\$ (1,303,666)</b> | <b>\$ (545,375)</b> |             | <b>\$ 270,810</b> |



**City of Morgan Hill**  
**Balance Sheets - Water and Sewer Funds**  
**Final For the Month of June 2006**  
**100% of Year Completed**

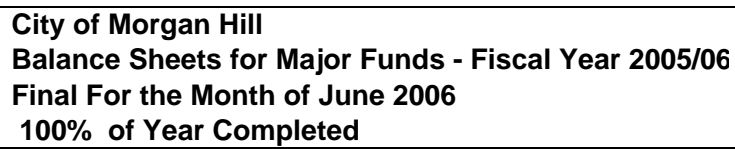
|   | <b>Sewer<br/>Operations<br/>(640)</b> | <b>Sewer<br/>Expansion<br/>Stabilization<br/>Capital Projects<br/>(641-643)</b> | <b>Water<br/>Operations<br/>(650)</b> | <b>Water<br/>Expansion<br/>Stabilization<br/>Capital Projects<br/>(651-653)</b> |
|---|---------------------------------------|---|---------------------------------------|---|
| <b>ASSETS</b>   |                                       |   |                                       |   |
| <b>Cash and investments:</b>                            |                                       |   |                                       |   |
| <b>Unrestricted</b>                                     | 1,508,187                             | 6,302,255   | 3,335,249                             | 2,843,698   |
| <b>Restricted <sup>1</sup></b>                          | 1,895,609                             | 6,715,685   | 390,244                               | 3,563,648   |
| <b>Accounts Receivable</b>                              |                                       | 808,910   |                                       | 39,553  |
| <b>Utility Receivables</b>                              | 455,221                               |   | 972,832                               |   |
| <b>Less Allowance for Doubtful Accounts</b>             | (24,057)                              |   | (36,087)                              |   |
| <b>Notes Receivable <sup>2</sup></b>                    |                                       | 32,107  | 0                                     |   |
| <b>Fixed Assets <sup>3</sup></b>                        | 29,628,818                            | 12,497,964  | 23,851,712                            | 12,694,521  |
| <b>Total Assets</b>                                     | <u>33,463,778</u>                     | <u>26,356,921</u>   | <u>28,513,950</u>                     | <u>19,141,420</u>   |
| <b>LIABILITIES</b>                                      |                                       |   |                                       |   |
| <b>Accounts Payable and Accrued Liabilities</b>         | 347,991                               | 889,789   | 548,946                               | 432,464   |
| <b>Deposits for Water Services &amp; Other Deposits</b> |                                       |   | 84,743                                |   |
| <b>Deferred Revenue <sup>4</sup></b>                    |                                       |   |                                       |   |
| <b>Bonds Payable</b>                                    | 23,300,000                            |   | 5,568,631                             | 7,740,000   |
| <b>Discount on Bonds and Other Liabilities</b>          | (2,425,887)                           |   | (913,413)                             | (344,863)   |
| <b>Accrued Vacation and Comp Time</b>                   | 77,940                                |   | 138,999                               |   |
| <b>Total liabilities</b>                                | <u>21,300,044</u>                     | <u>889,789</u>  | <u>5,427,906</u>                      | <u>7,827,601</u>  |
| <b>FUND EQUITY</b>                                      |                                       |   |                                       |   |
| <b>Contributed Capital</b>                              | 7,443,305                             |   | 14,356,292                            |   |
| <b>Retained Earnings</b>                                |                                       |   |                                       |   |
| <b>Reserved for:</b>                                    |                                       |   |                                       |   |
| <b>Noncurrent water/sewer assets &amp; debt</b>         | 8,676,765                             | 12,497,964  | 19,057,495                            | 5,299,384   |
| <b>Encumbrances</b>                                     | 46,155                                | 201,548   | 257,114                               | 267,791   |
| <b>Notes Receivable</b>                                 |                                       | 32,107  |                                       |   |
| <b>Restricted Cash</b>                                  | 1,895,609                             |   | 390,244                               | 3,563,648   |
| <b>Total Reserved Retained Earnings</b>                 | 10,618,529                            | 12,731,619  | 19,704,853                            | 9,130,823   |
| <b>Unreserved Retained Earnings</b>                     | 1,545,205                             | 12,735,513  | 3,381,191                             | 2,182,996   |
| <b>Total Fund Equity</b>                                | <u>12,163,734</u>                     | <u>25,467,132</u>   | <u>23,086,044</u>                     | <u>11,313,819</u>   |
| <b>Total Liabilities and Fund Equity</b>                | <u>33,463,778</u>                     | <u>26,356,921</u>   | <u>28,513,950</u>                     | <u>19,141,420</u>   |

<sup>1</sup> Restricted for Bond Reserve requirements and capital expansion.

<sup>2</sup> Includes Note for Sewer Financing Agreements.

<sup>3</sup> Includes Water and Sewer infrastructure and the City's share of the Wastewater treatment plant.

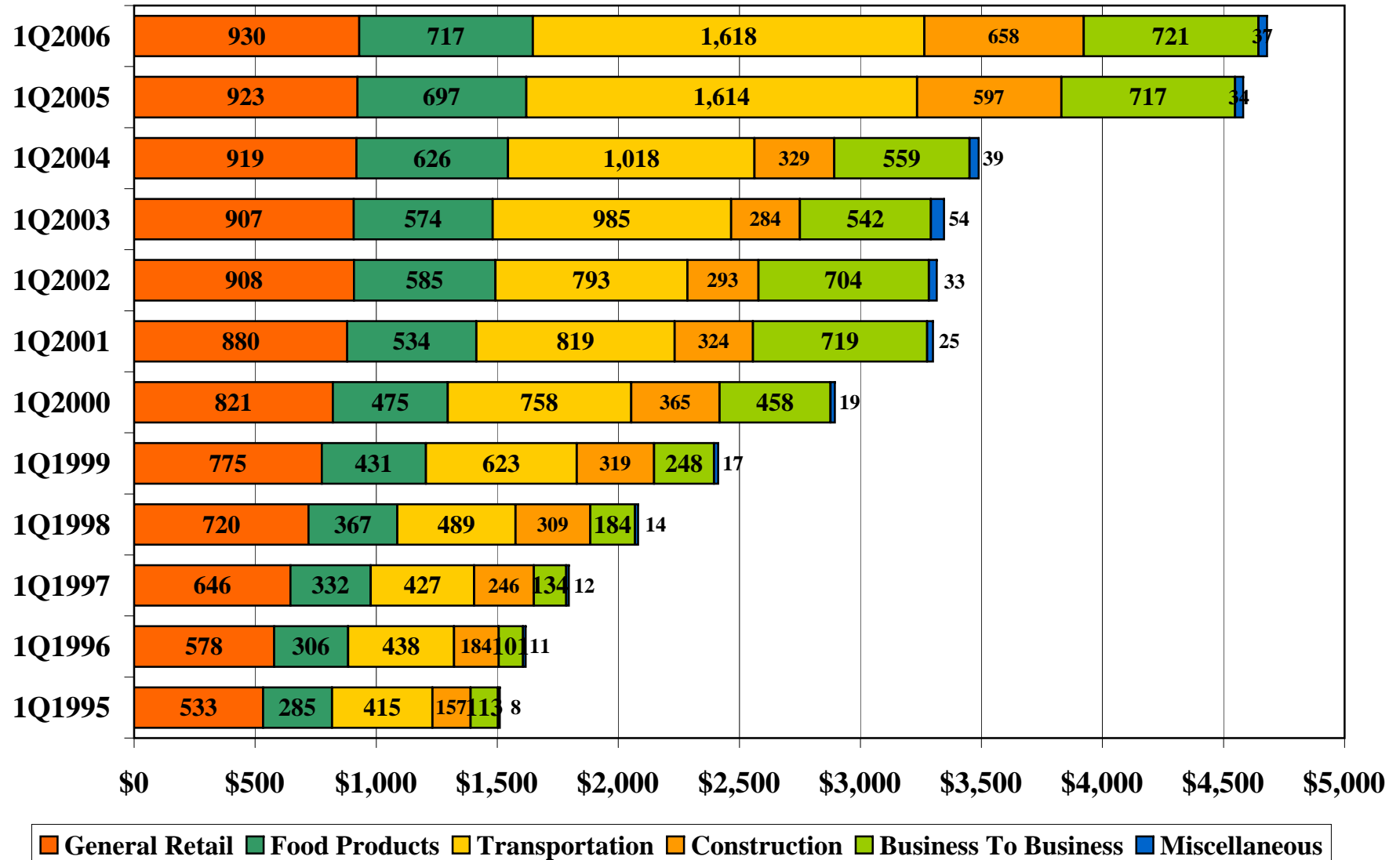
<sup>4</sup> Includes the deferred payment portion of the loans noted above.



<sup>1</sup> Restricted for Petty Cash use, Bond Reserve requirements and sewer and water capital expansion.  
<sup>2</sup> Includes Housing Rehab loans, Financing Agreements for Public Works Fees and loans for several housing and Agency projects.  
<sup>3</sup> Includes Water and Sewer infrastructure, the City's share of the Wastewater treatment plant and RDA properties held for resale.  
<sup>4</sup> Includes the deferred payment portion of the loans noted above.  
<sup>5</sup> Designated as a general reserve.

# CITY OF MORGAN HILL ANNUAL SALES TAX BY BUSINESS CATEGORY

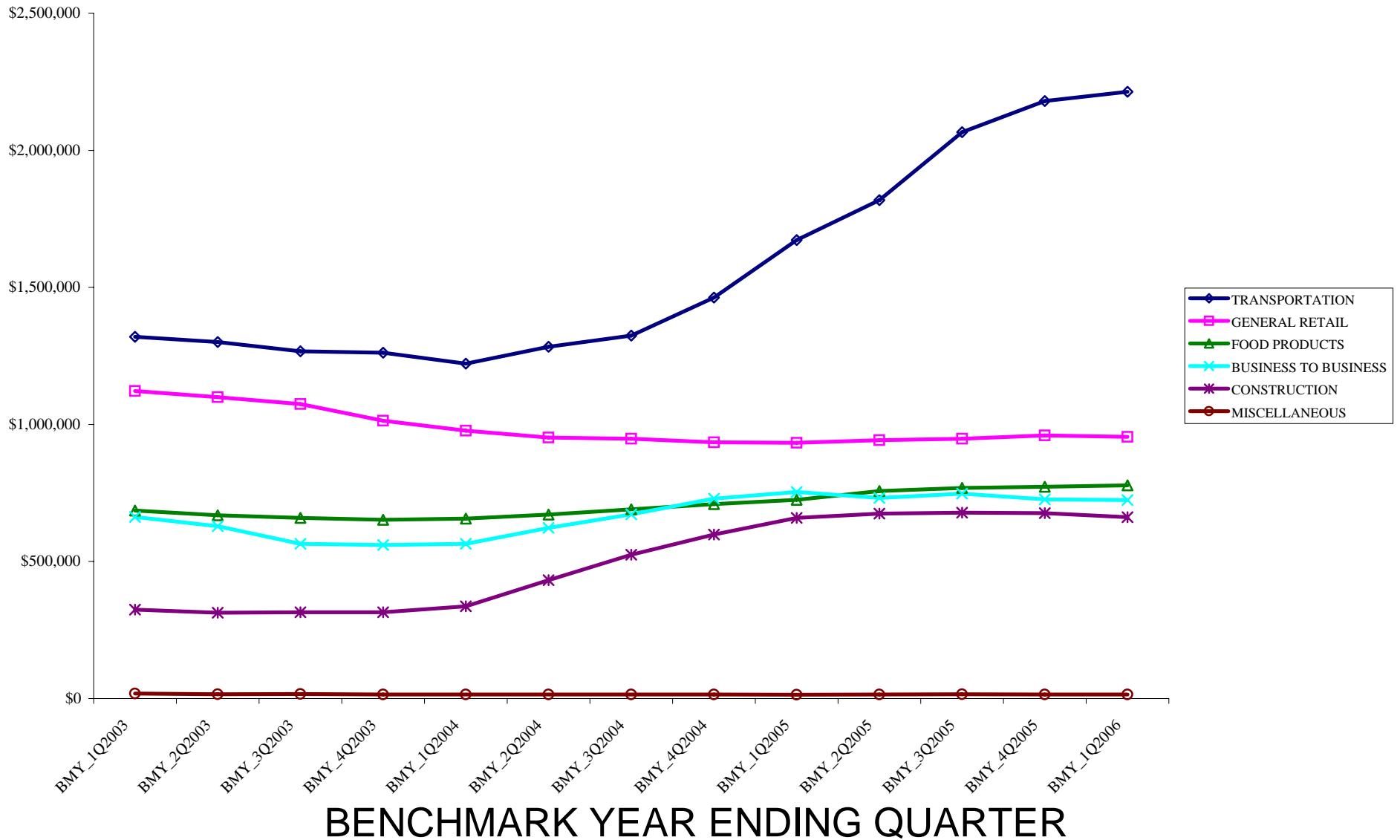
(in thousands of \$)





# CITY OF MORGAN HILL

## SALES TAX BY ECONOMIC CATEGORY



## Sales Tax Revenue Analysis

### Quarterly Sales Tax Revenues

| Year                       | Q1               | Q2        | Q3        | Q4        | Total     |
|----------------------------|------------------|-----------|-----------|-----------|-----------|
| <b>2006</b>                | <b>1,480,873</b> |           |           |           |           |
| 2005                       | 1,352,902        | 1,503,903 | 1,748,750 | 1,669,406 | 6,274,961 |
| 2004                       | 1,008,820        | 1,303,824 | 1,288,347 | 1,471,834 | 5,072,825 |
| 2003                       | 1,152,258        | 1,045,369 | 1,064,072 | 1,075,630 | 4,337,329 |
| 2002                       | 1,066,129        | 1,224,131 | 1,172,571 | 1,158,608 | 4,621,439 |
| 2001                       | 1,348,773        | 1,357,056 | 1,274,566 | 1,267,347 | 5,247,742 |
| 2000                       | 1,139,868        | 1,285,566 | 1,250,633 | 1,408,160 | 5,084,227 |
| 1999                       | 921,597          | 1,080,386 | 1,117,296 | 1,177,610 | 4,296,889 |
| 1998                       | 861,449          | 977,685   | 971,007   | 1,017,725 | 3,827,866 |
| 1997                       | 787,430          | 861,780   | 913,292   | 1,009,943 | 3,572,445 |
| 1996                       | 726,088          | 799,526   | 851,152   | 846,916   | 3,223,682 |
| 1995                       | 644,959          | 720,072   | 736,824   | 769,415   | 2,871,270 |
| 1994                       | 693,039          | 704,331   | 753,364   | 733,555   | 2,884,289 |
| Average <sup>1</sup>       | \$ 975,276       | 1,071,969 | 1,095,156 | 1,133,846 | 4,276,247 |
| Avg \$ Growth <sup>1</sup> | \$ 59,988        | 72,688    | 90,490    | 85,077    | 308,243   |
| Avg % Growth <sup>1</sup>  | 8.7%             | 10.3%     | 12.0%     | 11.6%     | 10.7%     |

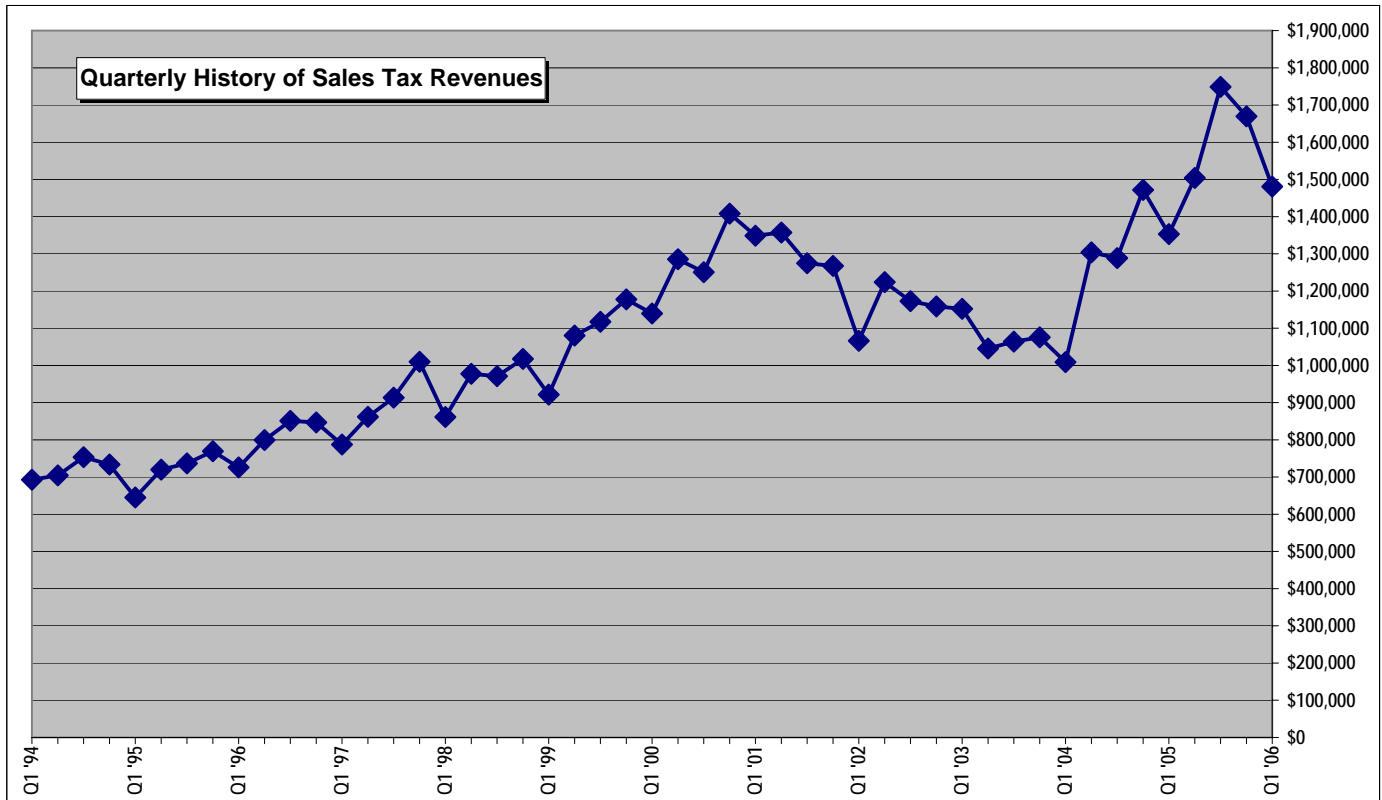
<sup>1</sup> Average from 1994 to 2005

### Percent Increase/Decrease from Prior Year

| Year       | Q1     | Q2     | Q3    | Q4     | Total  |
|------------|--------|--------|-------|--------|--------|
| 2005 to 06 | 9.5%   |        |       |        |        |
| 2004 to 05 | 34.1%  | 15.3%  | 35.7% | 13.4%  | 23.7%  |
| 2003 to 04 | -12.4% | 24.7%  | 21.1% | 36.8%  | 17.0%  |
| 2002 to 03 | 8.1%   | -14.6% | -9.3% | -7.2%  | -6.1%  |
| 2001 to 02 | -21.0% | -9.8%  | -8.0% | -8.6%  | -11.9% |
| 2000 to 01 | 18.3%  | 5.6%   | 1.9%  | -10.0% | 3.2%   |
| 1999 to 00 | 23.7%  | 19.0%  | 11.9% | 19.6%  | 18.3%  |
| 1998 to 99 | 7.0%   | 10.5%  | 15.1% | 15.7%  | 12.3%  |
| 1997 to 98 | 9.4%   | 13.4%  | 6.3%  | 0.8%   | 7.1%   |
| 1996 to 97 | 8.4%   | 7.8%   | 7.3%  | 19.2%  | 10.8%  |
| 1995 to 96 | 12.6%  | 11.0%  | 15.5% | 10.1%  | 12.3%  |
| 1994 to 95 | -6.9%  | 2.2%   | -2.2% | 4.9%   | -0.5%  |

### Cumulative Quarterly Sales Tax as % of Annual Total

| Year        | Q1    | Q1-Q2 | Q1-Q3 | Q1-Q4  |
|-------------|-------|-------|-------|--------|
| <b>2006</b> |       |       |       |        |
| 2005        | 21.6% | 45.5% | 73.4% | 100.0% |
| 2004        | 19.9% | 45.6% | 71.0% | 100.0% |
| 2003        | 26.6% | 50.7% | 75.2% | 100.0% |
| 2002        | 23.1% | 49.6% | 74.9% | 100.0% |
| 2001        | 25.7% | 51.6% | 75.8% | 100.0% |
| 2000        | 22.4% | 47.7% | 72.3% | 100.0% |
| 1999        | 21.4% | 46.6% | 72.6% | 100.0% |
| 1998        | 22.5% | 48.0% | 73.4% | 100.0% |
| 1997        | 22.0% | 46.2% | 71.7% | 100.0% |
| 1996        | 22.5% | 47.3% | 73.7% | 100.0% |
| 1995        | 22.5% | 47.5% | 73.2% | 100.0% |
| 1994        | 24.0% | 48.4% | 74.6% | 100.0% |
| Average     | 22.9% | 47.9% | 73.5% | 100.0% |





**REDEVELOPMENT AGENCY**  
***STAFF REPORT***

***MEETING DATE:*** August 23, 2006

**JULY 2006 FINANCE & INVESTMENT REPORT**

**RECOMMENDED ACTION:**

Accept and File Report

**EXECUTIVE SUMMARY:** Attached is the monthly Finance and Investment Report of the Redevelopment Agency of the City of Morgan Hill for the month of July 2006. The report covers activity for the first month of the 2006/2007 fiscal year. A summary of the report is included on the first page for the Board's benefit.

The Redevelopment Agency monthly Finance and Investment Report is presented to the Agency Board and our Citizens as part of our ongoing commitment to improve and maintain public trust through communication of our finances, budget and investments. The report also serves to provide the information necessary to determine the adequacy/stability of financial projections and develop equitable resource/revenue allocation procedures.

This report covers all fiscal activity of the Redevelopment Agency.

**FISCAL IMPACT:** Resources were budgeted for the preparation of this report. The preparation will not affect the 2006/07 Finance Department work plan.

**Agenda Item # 2**

**Prepared By:**

**Finance Director**

**Submitted By:**

**Executive director**

**REDEVELOPMENT AGENCY OF  
THE CITY OF MORGAN HILL**

**Monthly Financial and Investment Reports**

**July 31, 2006 – 8% Year Complete**



**CITY OF MORGAN HILL  
REDEVELOPMENT AGENCY**

**Prepared by:**

**FINANCE DEPARTMENT**



**REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL, CALIFORNIA**  
**FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2006/07**  
**FOR THE MONTH OF JULY 2006 - 8% OF YEAR COMPLETE**

**Revenues**

Through July 31, the Redevelopment Agency received property tax increment revenues. Most property tax increment revenues are received in December and April. The Redevelopment Agency, as of July 31, 2006, has collected \$100,000,000 in tax increment revenue under the original plan and has collected \$117,815,984, net of pass-through obligations to other agencies, toward the plan amendment cap of \$147,000,000. All tax increment revenues collected during 2006/2007 were collected under the plan amendment.

An amount of \$4,210 in interest earnings and other income was received during July. Additional interest earnings for July have not yet been apportioned, but will be following the quarter ending September 30.

**Expenditures**

Total Redevelopment Agency Capital Projects expenditures and encumbrances equaled \$16,692,468, or 43% of the budget. Of this total, \$16,527,315 represented encumbrances for capital projects and other commitments. If the encumbrances were excluded, the RDA would have spent only 1% of the budget. Expenditures for administrative costs for employee services, supplies, and contract services were 5% of budget. During July 2006, CIP project expenditures totaled \$16,358.

Expenditures plus encumbrances for Housing were at 2% of the budget for a total of \$237,831. All of the 2006/07 housing related expenditures have been funded with tax increment collected under the plan amendment.

**Fund Balance**

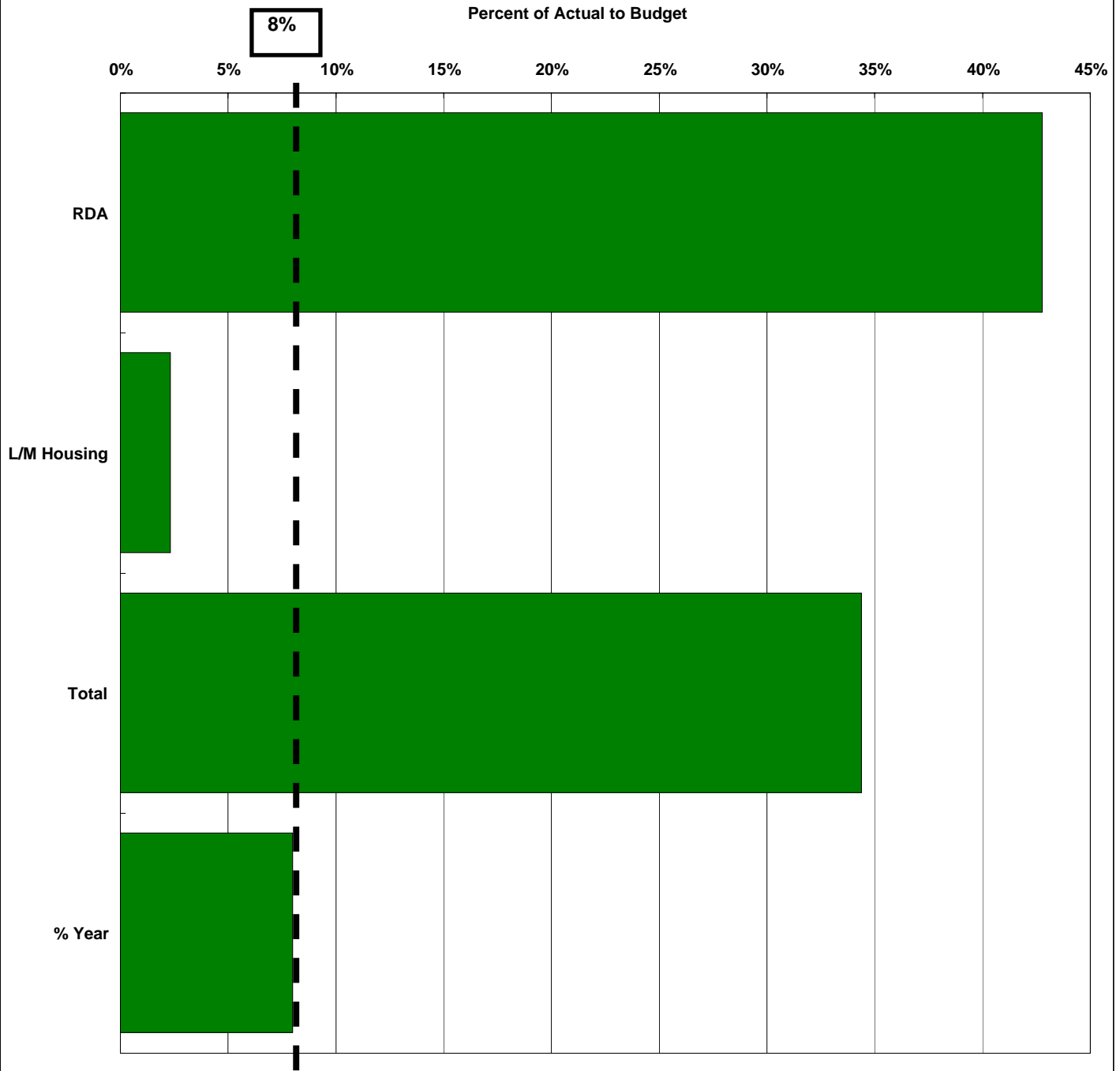
The unreserved fund balance of a negative (\$4,579,333) for the Capital Projects Fund at July 31, 2006, consisted entirely of monies collected under the plan amendment. The unreserved fund balance included future obligations to pay an additional \$875,000 for the Courthouse Facility and \$1.61 million for the Lomanto property should the Agency agree to execute its option to purchase in accordance with the agreement. If all these future commitments are subtracted from the negative (\$4,579,333), the remaining unreserved fund balance at July 31 would be a negative (\$2,094,333). However, these commitments are expected to be paid out over the next several years. Property tax increment receipts in the near future will provide the resources necessary to carry the Agency through the remainder of this fiscal year. The Capital Projects Fund cash balance at July 31 was \$11,338,181.

The unreserved fund balance of \$7,394,076 for the Housing Fund at July 31 consisted of funds all collected under the plan amendment.



# Redevelopment Agency YTD Expenditures

July 31, 2006



| Expenditure Category | Budget       | Actual Plus Encumbrances | % of Budget |
|----------------------|--------------|--------------------------|-------------|
| CAPITAL PROJECTS     | \$39,029,392 | \$16,692,468             | 43%         |
| HOUSING              | 10,217,193   | 237,831                  | 2%          |
| TOTALS               | \$49,246,585 | \$16,930,299             | 34%         |



# Redevelopment Agency YTD Revenues

July 31, 2006

8%

Percent of Actual to Budget

0% 1% 2% 3% 4% 5% 6% 7% 8% 9%

Property Tax

Interest/Other

Total Revs

% Year

| REVENUE CATEGORY            | BUDGET       | ACTUAL  | % OF BUDGET | PRIOR YEAR TO DATE | % CHANGE FROM PRIOR YEAR |
|-----------------------------|--------------|---------|-------------|--------------------|--------------------------|
| PROPERTY TAXES              | \$25,157,965 |         |             | \$151,823          | -100%                    |
| INTEREST INCOME/RENTS/OTHER | \$290,753    | \$4,210 | 1%          | \$4,746            | -11%                     |
| TOTALS                      | \$25,448,718 | \$4,210 |             | \$156,569          | -97%                     |



Redevelopment Agency  
Fund Balance Report - Fiscal Year 2006/07  
For the Month of July 2006  
8% of Year Complete

| Fund No.                           | Fund                   | Unaudited Fund Balance<br>06-30-05 | Revenues     |             | Expenditures   |             | Year to-Date Deficit or Carryover | Ending Fund Balance   |                  | Cash and Investments |            |
|------------------------------------|------------------------|------------------------------------|--------------|-------------|----------------|-------------|-----------------------------------|-----------------------|------------------|----------------------|------------|
|                                    |                        |                                    | YTD Actual   | % of Budget | YTD Actual     | % of Budget |                                   | Reserved <sup>1</sup> | Unreserved       | Unrestricted         | Restricted |
| 317                                | CAPITAL PROJECTS       | \$12,182,379                       | 1,805        | 0%          | 165,153        | 0%          | (163,348)                         | 16,598,364            | (4,579,333)      | \$11,338,181         |            |
| 327/328                            | HOUSING                | \$6,764,866                        | 2,405        | 0%          | 143,947        | 1%          | (141,542)                         | 664,015               | \$7,394,076      | \$7,975,959          |            |
| <b>TOTAL CAPITAL PROJECT FUNDS</b> |                        | <b>\$18,947,245</b>                | <b>4,210</b> | <b>0%</b>   | <b>309,100</b> | <b>1%</b>   | <b>(304,890)</b>                  | <b>17,262,379</b>     | <b>2,814,743</b> | <b>19,314,140</b>    |            |
| <b>SUMMARY BY FUND TYPE</b>        |                        |                                    |              |             |                |             |                                   |                       |                  |                      |            |
|                                    | CAPITAL PROJECTS GROUP | \$18,947,245                       | 4,210        | 0%          | 309,100        | 1%          | (304,890)                         | 17,262,379            | 2,814,743        | 19,314,140           |            |
| <b>TOTAL ALL GROUPS</b>            |                        | <b>\$18,947,245</b>                | <b>4,210</b> | <b>0%</b>   | <b>309,100</b> | <b>1%</b>   | <b>(304,890)</b>                  | <b>17,262,379</b>     | <b>2,814,743</b> | <b>19,314,140</b>    |            |
| <b>TOTAL CASH AND INVESTMENTS</b>  |                        |                                    |              |             |                |             |                                   |                       |                  | <b>19,314,140</b>    |            |

<sup>1</sup> Amount reserved for encumbrances, fixed asset replacement, long-term receivables





Redevelopment Agency  
Year to Date Revenues - Fiscal Year 2006/07  
For the Month of July 2006  
8% of Year Complete

| FUND<br>REVENUE<br>SOURCE           | ADOPTED<br>BUDGET | AMENDED<br>BUDGETED | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD   | INCREASE<br>(DECREASE)<br>FROM PRIOR<br>YTD | %<br>CHANGE |
|-------------------------------------|-------------------|---------------------|--------------------------|----------------|----------------|---|-------------|
| <b>CAPITAL PROJECTS FUNDS</b>       |                   |                     |                          |                |                |   |             |
| <b>317 CAPITAL PROJECTS</b>         |                   |                     |                          |                |                |   |             |
| Property Taxes & Supplemental Roll  | 20,623,665        | 20,623,665          | -                        | n/a            | 121,458        | (121,458)                                   | -100%       |
| Loan Proceeds                       | -                 | -                   | -                        | n/a            | -              | -   | n/a         |
| Interest Income, Rents              | 125,890           | 125,890             | 1,805                    | 1%             | 1,096          | 709   | 65%         |
| Other Agencies/Current Charges      | -                 | -                   | -                        | n/a            | 385            | (385)                                       | -100%       |
| <b>TOTAL CAPITAL PROJECTS</b>       | <b>20,749,555</b> | <b>20,749,555</b>   | <b>1,805</b>             | <b>0%</b>      | <b>122,939</b> | <b>(121,134)</b>                            | <b>-99%</b> |
| <b>327/328 HOUSING</b>              |                   |                     |                          |                |                |   |             |
| Property Taxes & Supplemental Roll  | 4,534,300         | 4,534,300           | -                        | n/a            | 30,365         | (30,365)                                    | -100%       |
| Interest Income, Rent               | 151,510           | 151,510             | 1,584                    | 1%             | 2,325          | (741)                                       | -32%        |
| Other                               | 13,353            | 13,353              | 821                      | na             | 940            | (119)                                       | -13%        |
| <b>TOTAL HOUSING</b>                | <b>4,699,163</b>  | <b>4,699,163</b>    | <b>2,405</b>             | <b>0%</b>      | <b>33,630</b>  | <b>(31,225)</b>                             | <b>-93%</b> |
| <b>TOTAL CAPITAL PROJECTS FUNDS</b> | <b>25,448,718</b> | <b>25,448,718</b>   | <b>4,210</b>             | <b>0%</b>      | <b>156,569</b> | <b>(152,359)</b>                            | <b>-97%</b> |



Redevelopment Agency  
Year to Date Expenses - Fiscal Year 2005/2006  
For the Month of July 2006  
8% of Year Complete

| FUND NO.                           | FUND/ACTIVITY                 | THIS MONTH ACTUAL EXPENDITURES | AMENDED BUDGET           | YTD EXPENDITURES      | OUTSTANDING ENCUMBRANCES | TOTAL ALLOCATED          | % OF TOTAL TO BUDGET | PRIOR YTD             |
|------------------------------------|-------------------------------|--------------------------------|--------------------------|-----------------------|--------------------------|--------------------------|----------------------|-----------------------|
| 317 CAPITAL PROJECTS               |                               |                                |                          |                       |                          |                          |                      |                       |
|                                    | Tax Increment Pass Thru ERAF  | -                              | -                        | -                     | -                        | -                        | n/a                  |                       |
|                                    | BAHS Administration           | 138,795                        | 4,700,342                | 138,795               | 75,815                   | 214,610                  | 5%                   | 108,906               |
|                                    | BAHS Economic Development     | 10,000                         | 4,482,274                | 10,000                | 362,290                  | 372,290                  | 8%                   | 1,957                 |
|                                    | BAHS CIP                      | <u>16,358</u>                  | <u>29,846,776</u>        | <u>16,358</u>         | <u>16,089,210</u>        | <u>16,105,568</u>        | <u>54%</u>           | <u>124,370</u>        |
|                                    | <b>TOTAL CAPITAL PROJECTS</b> | <b><u>165,153</u></b>          | <b><u>39,029,392</u></b> | <b><u>165,153</u></b> | <b><u>16,527,315</u></b> | <b><u>16,692,468</u></b> | <b><u>43%</u></b>    | <b><u>235,233</u></b> |
| 327 AND 328 HOUSING                |                               |                                |                          |                       |                          |                          |                      |                       |
|                                    | Housing                       | <u>143,947</u>                 | <u>10,217,193</u>        | <u>143,947</u>        | <u>93,884</u>            | <u>237,831</u>           | <u>2%</u>            | <u>63,287</u>         |
|                                    | <b>TOTAL HOUSING</b>          | <b><u>143,947</u></b>          | <b><u>10,217,193</u></b> | <b><u>143,947</u></b> | <b><u>93,884</u></b>     | <b><u>237,831</u></b>    | <b><u>2%</u></b>     | <b><u>63,287</u></b>  |
| <b>TOTAL CAPITAL PROJECT FUND:</b> |                               | <b>309,100</b>                 | <b>49,246,585</b>        | <b>309,100</b>        | <b>16,621,199</b>        | <b>16,930,299</b>        | <b>34%</b>           | <b>298,520</b>        |



Redevelopment Agency of the City of Morgan Hill  
 Balance Sheet Report - Fiscal Year 2005/06  
 For the Month of July 2006  
 8% of Year Complete

|  | CAPITAL PROJECTS<br>(Fund 317) | Housing<br>(Fund 327/328) |
|--|--------------------------------|---------------------------|
| <b>ASSETS</b>                            |                                |                           |
| Cash and investments:                    |                                |                           |
| Unrestricted                             | 9,216,853                      | 7,864,674                 |
| Accounts Receivable                      | 46,522                         | 88,828                    |
| Loans Receivable <sup>1</sup>            | 3,382,329                      | 37,771,418                |
| Advance to Other Funds                   |                                |                           |
| Fixed Assets <sup>2</sup>                | 71,049                         | 174,360                   |
| Other Assets                             |                                |                           |
| Total Assets                             | 12,716,753                     | 45,899,280                |
| <b>LIABILITIES</b>                       |                                |                           |
| Accounts Payable and Accrued Liabilities | 223,400                        | 66,305                    |
| Deferred Revenue <sup>3</sup>            | 3,286,896                      | 37,774,884                |
| Accrued Vacation and Comp Time           |                                |                           |
| Total liabilities                        | 3,510,296                      | 37,841,189                |
| <b>FUND BALANCE</b>                      |                                |                           |
| Fund Balance                             |                                |                           |
| Reserved for:                            |                                |                           |
| Encumbrances                             | 16,527,315                     | 489,655                   |
| Advance to Other Funds                   |                                |                           |
| Properties Held for Resale               | 71,049                         | 174,360                   |
| Loans and Notes Receivable               |                                |                           |
| Total Reserved Fund balance              | 16,598,364                     | 664,015                   |
| Unreserved Fund Balance                  | (7,391,907)                    | 7,394,076                 |
| Total Fund Balance                       | 9,206,457                      | 8,058,091                 |
| Total Liabilities and Fund Balance       | 12,716,753                     | 45,899,280                |

<sup>1</sup> Includes Housing Rehab loans and loans for several housing and Agency projects.

<sup>2</sup> Includes RDA properties held for resale.

<sup>3</sup> Includes the deferred payment portion of the loans noted above.

**CITY OF MORGAN HILL  
CITY COUNCIL SPECIAL MEETING  
MINUTES – JULY 26, 2006**

**CALL TO ORDER**

Mayor Kennedy called the special meeting to order at 7:07 P.M.

**ROLL CALL ATTENDANCE**

Present: Council Members Carr, Grzan, Sellers, Tate and Mayor Kennedy

**DECLARATION OF POSTING OF AGENDA**

City Clerk Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2.

**SILENT INVOCATION**

**PLEDGE OF ALLEGIANCE**

**PUBLIC COMMENT**

Mayor Kennedy opened the floor to public comment for items not appearing on this evening's agenda. No comments were offered.

**ADJOURN**

Mayor Kennedy announced that this special meeting agenda item would be taken up at the conclusion of the regular City Council/Agency Board meeting.

**RECONVENE**

Mayor Kennedy reconvened the special meeting at 10:36 p.m.

**OTHER BUSINESS**

**1. WATER SUPPLY SHORTAGE OPERATIONS PLAN**

Director of Public Works Ashcraft indicated that the State had a critical problem in terms of energy infrastructure with the recent unprecedented heat wave, and that this strained the water supply capabilities of the City. He said that up until the past week, the City had almost enough of a water supply to meet peak demand, even if the City's largest well was out of service. Also, up until last week, the City's peak demand occurred in July 2003 at 12.8 million gallons of water per day (MGD). He said that the City currently has the capability of supplying 14 MGDs through 15 deep water wells. However, this past Sunday, the City substantially exceeded the 12.8 MGDs and supplied 13.48 MGDs of water. He indicated that most of the City's water demand is going toward irrigation, and that water usage was

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aggravated by very high temperatures. Based upon a new peak day demand of 13.48 MGDs, the City only has a 4% margin in the City's water supply.

Mr. Ashcraft informed the Council that should the Council concur with staff recommended actions, the Council would be giving the City Manager the authority to take further actions to reduce the biggest private irrigation accounts in the City, and ask that they immediately cut back on water usage in order to maintain fire flow in the reservoirs. He indicated that the State Water Code allows emergency actions to be taken should the City be unable to deliver water in a critical emergency; indicating that this action can be taken without a public hearing. Staff is requesting, in accordance with Section 351 of the State Water Code, the Council authorize the City Manager to take these actions. Should the City Manager need to take emergency action(s), staff would report the action(s) taken to the Council at the next available opportunity. Should the weather cool down soon, he did not believe actions would be necessary. However, the City should be prepared to take action, should it be necessary to do so.

Mr. Ashcraft noted the Council recently adopted an ordinance that mandates the installation of drought tolerant landscaping in order to reduce water demands on irrigation. The City also joined the Santa Clara Valley Water District in promoting the reconstruction of lawn areas into drought tolerant plantings. He stated the City is moving forward with upgrades and adding new water wells. He indicated that staff is negotiating for the acquisition of a water well with the hope that it will be under construction before the end of the summer; augmenting the City's water supply before summer 2007.

Mayor Kennedy opened the floor to public comment. No comments were offered.

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0); in Accordance with Section 351 of the State Water Code: 1) **Authorized** the City Manager to take actions to Protect Public Safety when Water Supply Emergencies Occur; and 2) **Reviewed** and **Acknowledged** the Water Supply Shortage Action Plan.*

#### **FUTURE COUNCIL-INITIATED AGENDA ITEMS**

No items were identified.

#### **ADJOURNMENT**

There being no further business, Mayor Kennedy adjourned the meeting at 10:41 p.m.

#### **MINUTES RECORDED AND PREPARED BY:**

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**IRMA TORREZ, CITY CLERK**



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

**Agenda Item # 4**

**Prepared By:**

**Council Services &  
Records Manager/  
City Clerk**

**Submitted By:**

**City Manager**

### **RESIGNATION OF A SENIOR ADVISORY COMMISSIONER**

#### **RECOMMENDED ACTIONS:**

1. **Accept** Staten Johnston's Resignation from the Senior Advisory Commission; and
2. **Direct** the City Clerk to Commence Recruitment Efforts to Fill the Vacancy

#### **EXECUTIVE SUMMARY:**

Mayor Kennedy received a letter from Staten Johnston, dated August 4, 2006, indicating that he is resigning from the Senior Advisory Commission due to personal reasons. Mr. Johnston's term is due to expire June 1, 2007.

Staff recommends the Council accept Mr. Johnston's resignation from the Senior Advisory Commission. Further, that staff be directed to commence recruitment efforts to fill an unexpired term on the Senior Advisory Commission.

**FISCAL IMPACT:** The time necessary to prepare this report is accommodated in the Council Services and Records Manager's operating budget.



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

**Agenda Item # 5**

**Prepared By:**

**Council Services &  
Records Manager/  
City Clerk**

**Submitted By:**

**City Manager**

### **RESIGNATION OF A SENIOR ADVISORY COMMISSIONER**

#### **RECOMMENDED ACTIONS:**

1. **Accept** Staten Johnston's Resignation from the Senior Advisory Commission; and
2. **Direct** the City Clerk to Commence Recruitment Efforts to Fill the Vacancy

#### **EXECUTIVE SUMMARY:**

Mayor Kennedy received a letter from Staten Johnston, dated August 4, 2006, indicating that he is resigning from the Senior Advisory Commission due to personal reasons. Mr. Johnston's term is due to expire June 1, 2007.

Staff recommends the Council accept Mr. Johnston's resignation from the Senior Advisory Commission. Further, that staff be directed to commence recruitment efforts to fill an unexpired term on the Senior Advisory Commission.

**FISCAL IMPACT:** The time necessary to prepare this report is accommodated in the Council Services and Records Manager's operating budget.



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

**Agenda Item # 6**

**Prepared By:**

**Dep Dir PW/Operatins**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**

### **DOG PARK FUNDING REQUEST**

#### **RECOMMENDED ACTIONS:**

- 1) Approve Parks and Recreation Commission Recommendation to Appropriate \$20,000 from the Park Development Fund to partially finance the construction of the Off-Leash Dog Park Improvements; and
- 2) Increase appropriation from Park Impact Fund by \$20,000.

**EXECUTIVE SUMMARY:** Attached is a letter from D.O.G. dated June 6, 2006 to the City Council requesting the City contribute \$20,000 toward the construction of the Off Leash Dog Park Improvements at Community Park. Council directed the Parks and Recreation Commission (PRC) to review the request and make a recommendation.

The current Capital Improvements Plan identifies the following projects as unfunded: Aquatics Complex Phase II, Outdoor Sports Complex Phase II, Community Park Improvements Phases II-IV, and El Toro Youth Center. The Parks and Recreation Programming Master Plan identifies the following projects not yet in the Capital Improvement Plan: Dog Park and Silvierra Park. On July 18, 2006 staff provided this information to the PRC along with the D.O.G. funding request of \$20,000. PRC formed a recommendation that Council approve the D.O.G. request. Should Council approve the PRC recommendation, there is sufficient unappropriated fund balance in the Park Impact Fees (Fund 301).

Staff is negotiating an agreement with D.O.G. on terms for the use of that portion of Community Park designated as a dog park. The agreement, which will address construction, operation, and maintenance issues, will come back to the Council for consideration at a later date.

**FISCAL/RESOURCE IMPACT:** It is recommended that \$20,000 be appropriated from the current year unappropriated Park Impact Fee Fund.





## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

**Agenda Item #**     **7**

**Prepared By:**

\_\_\_\_\_  
**Senior Planner**

**Approved By:**

\_\_\_\_\_  
**Community  
Development Director**

**Submitted By:**

\_\_\_\_\_  
**City Manager**

### **POLICY REGARDING TENTATIVE SUBDIVISION MAP APPROVAL PRIOR TO THE AWARD OF BUILDING ALLOCATIONS THROUGH THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM.**

#### **RECOMMENDED ACTION(S):**

Adopt Policy, if deemed appropriate

**EXECUTIVE SUMMARY:** A request for City Council consideration of a policy which would allow the Planning Commission to approve tentative subdivision maps that include lots which have not yet received building allocation through the Residential Development Control System RDCS.

Currently the Planning Division will not process a residential tentative map unless each of the requested lots has secured a building allocation through the City's RDCS process. This practice stems from the following General Plan statement: "No residential development shall be undertaken, and no discretionary or building permit shall be issued, in the City of Morgan Hill unless a development allotment has been obtained."

The phrase "No residential development shall be undertaken," has been interpreted as the creation of the residential lot. Given that the actual creation of the lot occurs at the recordation of the final map, Council is asked to consider a policy that will allow for staff to process and Planning Commission approve, non-vesting tentative maps for large on-going residential projects which are not fully allocated, but meet all of the criteria of the proposed attached policy.

With the adoption of the proposed policy on-going projects can have a non-vesting tentative map approved for the remainder of the project. When the project receives additional building allocations, the applicant would only need to file for development agreement approval with Planning and prepare a final map for recordation which corresponds to the number of allocations awarded. Having a tentative map approval that contains additional unallocated lots, allows applicants to proceed with final map approval immediately upon receiving RDCS allocations. While the final map is in process with the Public Works Department, the Planning Division would be processing the corresponding development agreement. Per the proposed policy, the corresponding development agreement must be recorded prior to the recordation of the final map. By having a tentative map approval, the applicant would be able to get a 6-8 week head start on the processing of the final map with the Public Works Department. The applicant would also save money by not having to pay multiple tentative map application processing fees (\$5,077). Staff time would also be saved by reviewing a single tentative map as opposed to multiple.

This policy was reviewed by the Planning Commission at its July 25 meeting. The Commission voted unanimously to recommend approval of the proposed policy. A copy of the Commission staff report and minutes are attached for the Council's reference.

**FISCAL IMPACT:** No budget adjustment required.



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **NEW LIBRARY PROJECT – JULY CONSTRUCTION PROGRESS REPORT**

**RECOMMENDED ACTION(S):** *Information Only*

#### **EXECUTIVE SUMMARY:**

Previous Council action awarded the contracts for construction of the New Library to 19 different prime contractors. At that time, staff informed Council that we would report monthly on the progress of the construction. Attached is the progress report for the month of July. This report has been sent to our webmaster for posting on the City's website. Current construction activity can also be viewed live on the internet at [www.tbionline.com/tbicons/projects.htm](http://www.tbionline.com/tbicons/projects.htm).

With inclement weather behind us and the subdrain system continuing to drain the site, progress on the foundation is going smoothly. The piers are completed and the grade beams are currently being excavated and rebar installed. The contractors will begin underslab utilities soon in preparation for slab pours later next month. Barring any unforeseen circumstances, the anticipated substantial completion date is currently May 8, 2007. The grand opening date depends upon the County moving into the building, and is tentatively scheduled approximately six weeks later. The project is currently within budget.

**FISCAL/RESOURCE IMPACT:** None

**Agenda Item #** 8

**Prepared By:**

**Sr. Project Manager**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **CENTENNIAL RECREATION CENTER PROJECT – JULY CONSTRUCTION PROGRESS REPORT**

**RECOMMENDED ACTION(S):** *Information Only*

#### **EXECUTIVE SUMMARY:**

Previous Council action awarded the contract for construction of the Centennial Recreation Center Project to West Coast Contractors, Inc. At that time, staff informed Council that we would report monthly on the progress of the construction. Attached is the progress report for the month of July. This report has been sent to our webmaster for posting on the City's website. Current construction activity can be viewed live on the internet at [www.novapartners.com/mhirc](http://www.novapartners.com/mhirc).

Progress on the construction is continuing to go well. The locker rooms have tile work approximately half way completed. The pool tile and mechanical equipment is completed and the contractor is preparing for the deck concrete pour. The plaster will be the next and final construction before pool equipment start up later this month. Site landscape work and offsite median improvements are also progressing well. Deliveries of furniture and equipment are expected the middle of September. Barring any unforeseen circumstances, the anticipated Grand Opening has been set at October 28<sup>th</sup>, 2006 with a "soft opening" for Charter members two weeks prior. The project is currently within budget.

**FISCAL/RESOURCE IMPACT:** None

**Agenda Item #**      **9**

**Prepared By:**

**Sr. Project Manager**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** (August 23, 2006)

**Agenda Item # 10**

**Prepared By:**

(Title)

**Approved By:**

(Department Director)

**Submitted By:**

City Manager

### **RESPONSE TO SANTA CLARA COUNTY GRAND JURY REPORT “REDUCING LANGUAGE BARRIERS IN DOMESTIC VIOLENCE CALLS”**

**RECOMMENDED ACTION(S):** Direct Staff to provide the responses described below to the 2005-2006 Santa Clara County Grand Jury.

**EXECUTIVE SUMMARY:** The Santa Clara County Grand Jury issued the attached report entitled “REDUCING LANGUAGE BARRIERS IN DOMESTIC VIOLENCE CALLS” on June 6, 2006. The report is a summary of a survey from 15 law enforcement agencies, including the Morgan Hill Police Department, detailing their frequency of response to domestic violence calls and how the issue of language barriers is handled at the scene.

As part of their report the Grand Jury issues “finding.” The City is required to respond to the findings and agree or disagree with them pursuant to California Penal Code Section 933.5. Staff recommends that the City agree with Grand Jury findings I, II, III, IV, V, and VI. Finding I indicates that some officers ask children, friends, or neighbors to interpret on behalf of a limited English speaking person, which is not supported in the Domestic Violence Protocol. Finding II states three agencies surveyed do not utilize an Over-the-Phone Interpretation (OPI) service, whereas other Agencies successfully use an OPI service. Finding III states there is inconsistency among agencies in terms of training to keep officers up-to-date with Domestic Violence Protocol changes as developed by the Domestic Violence Council. One Agency relies on voluntary use of an internal website to allow officers to stay current on the Protocol. Finding IV reminds the reader that the immigrant and limited English speaking population in the county continues to grow and change. Some Agencies do not collaborate with community-based organizations that provide domestic violence services and programs relevant to this population. Finding V states that officers provide the Domestic Violence Resource Card to victims during domestic violence related calls, but most often not to other affected parties. Finding VI indicates that one agency does not have an agreement with any domestic violence community-based organization to review police reports in order to facilitate Organization follow-up contact with victims for support and services.

The city is required to respond to each Grand Jury “recommendation” by selecting from one of four responses pursuant to Penal Code Section 933.05. Staff recommends that the city respond by implementing “Recommendations numbered I, II, III, IV, V, and VI.” Recommendation I encourages officers to use discretion with non-certified sources of interpretation, such as family members, children, or neighbors. Officers should use a certified interpreter from another agency or Over-the-Phone Interpretation (OPI) Service. Recommendation II asks for the implementation of a policy to train and encourage officers to use an OPI service when other interpretation resources are not available. Recommendation III encourages agencies to implement formal training to ensure that officers participate in structured presentations of up-to-date information and require a certification ensuring completion and comprehension. Recommendation IV asks agencies to develop training programs to educate all personnel about cultural, religious, economic and immigration related issues that may affect victims’ decisions and reactions to domestic violence and community services. Recommendation V asks agencies to require officers to provide the resource card to all parties involved in a domestic violence incident. Recommendation VI encourages agencies to establish working relationships with appropriate community based organizations.

**FISCAL IMPACT:** \$15,600 – Over-time salary expenses for all sworn staff to attend annual eight hour in-house training sessions.



**CITY COUNCIL STAFF REPORT**  
**MEETING DATE:** August 23, 2006

**AUTHORIZE CITY MANAGER TO EXECUTE  
SUPPLEMENTAL AGREEMENT FOR RECEIVING STP  
FUNDING FOR 2006-07 PAVEMENT RESURFACING  
PROJECT**

**RECOMMENDED ACTION:** Adopt Resolution authorizing the City Manager to Execute Supplemental Agreement No. 008-M with the State Department of Transportation to receive Federal Funding for the 2006-07 Pavement Resurfacing Project.

**EXECUTIVE SUMMARY:** On August 18, 2004 and June 22, 2005 Council approved by resolutions the applications for receiving Federal Surface Transportation Program (STP) funding to provide asphalt resurfacing of Cochrane Avenue from Monterey to the Highway 101 over crossing and for portions of E. Main Avenue. Subsequently staff made applications for the STP funds and received initial approval for funding. On June 28, 2006 Council approved the award of the construction contract to O'Grady Paving for this work.

Pursuant to the attached letter dated July 12, 2006 from the State Department of Transportation, a resolution authorizing the City Manager to execute a Program Agreement is required to receive the STP funding after construction is completed.

**FISCAL/RESOURCE IMPACT:** This project is funded as part of the 2006-07 Capital Improvement Program (CIP) Budget, Project # 519096 using a combination of RDA, STP, and local funding.

Agenda Item # 11

Prepared By:

Dep Dir Public Works

Approved By:

Public Works Director

Submitted By:

City Manager

**RESOLUTION NO.**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
MORGAN HILL AUTHORIZING THE CITY MANAGER TO  
SIGN AGREEMENTS WITH THE CALIFORNIA DEPARTEMNT  
OF TRANSPORTATION FOR TRANSPORTATION PROJECTS**

**WHEREAS**, the City of Morgan Hill is eligible to receive Federal and/or State funding for certain Transportation Projects, through the California Department of Transportation; and

**WHEREAS**, Master Agreements, Program Supplemental Agreements, Fund Exchange Agreements and/or Fund Transfer Agreements need to be executed with the California Department of Transportation before such funds could be claimed, and

**WHEREAS**, the City wishes to delegate authorization to execute these agreements and any amendments thereto to the City Manager; now

**THEREFORE, BE IT RESOLVED** that the City Council of the City of Morgan Hill does resolve, determine and order that the City Manager be authorized to execute all Master Agreements, Program Supplemental Agreements, Fund Exchange Agreements, Fund Transfer Agreements and any amendments thereto with the California Department of Transportation.

**PASSED AND ADOPTED** by the City Council of Morgan Hill at a Regular Meeting held on the Day of August, 2006 by the following vote:

**AYES: COUNCIL MEMBERS:**  
**NOES: COUNCIL MEMBERS:**  
**ABSTAIN: COUNCIL MEMBERS:**  
**ABSENT: COUNCIL MEMBERS:**

**∞ CERTIFICATION ∞**

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA**, do hereby certify that the foregoing is a true and correct copy of Resolution No. , adopted by the City Council at a Regular Meeting held on August , 2006.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

**DATE:** \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: AUGUST 23, 2006***

### ***QUITCLAIM A PORTION OF DIANA AVENUE***

***(APN 726-07-079)***

#### **RECOMMENDED ACTION(S):**

1. Authorize the City Manager to execute the attached quitclaim deed releasing the City's interest in apportion of Diana Avenue previously vacated by the City.
2. Direct the City Clerk to file a certified copy of the Quitclaim Deed in the Office of the Recorder of Santa Clara County.

#### **EXECUTIVE SUMMARY:**

On January 20<sup>th</sup> 1993, the City Council of Morgan Hill passed and adopted Resolution No. 4648 (attached), which was recorded in the Santa Clara County Recorder's Office on March 8<sup>th</sup> 1993. Per Resolution No. 4648, the City of Morgan Hill vacated a portion (cul-de-sac) of Diana Avenue with a reservation of a public service easement over the same area. The said vacated area is located between APN 726-08-069 and APN 726-07-079, directly adjacent to the west of U.S. Highway 101. The purpose of the vacation was to facilitate the development of Tract 8431, which resulted in the permanent removal of the cul-de-sac portion Diana Avenue (see attached site map).

Since the recordation of said resolution, that vacated portion of Diana Avenue no longer constitutes a public street. The westerly half of the vacated area was quitclaimed, by the City to the owner of APN 726-08-069 on May 9<sup>th</sup> 2001 per Document No. 15671527. The current owner of APN 726-07-079, Light of the World Church, is requesting that the City quitclaim the easterly half of the vacated area, in order to facilitate APN 736-07-079's onsite development of a proposed church.

Staff has determined that all concerned issues regarding this portion of Diana Avenue have already been addressed by the adoption and recordation of Resolution No. 4648. Staff is requesting authorization for the City Manager to execute the attached Quitclaim Deed releasing the City's interest of the easterly half of the vacated area, and direct the City Clerk to file a certified copy of the Quitclaim Deed in the Office of the Recorder of Santa Clara County.

#### **FISCAL/RESOURCE IMPACT:**

Development review for this project is from development processing fees.

**Agenda Item #** 12

**Prepared By:**

**Assistant Engineer**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **AWARD OF PROFESSIONAL SERVICES CONTRACT FOR CONSTRUCTION STAKING FOR DEPOT STREET RECONSTRUCTION PROJECT**

**RECOMMENDED ACTION(S):** Authorize the City Manager to execute a consultant agreement with BKF Engineers in the amount of \$38,046 for construction staking for the Depot Street Reconstruction Project, subject to approval by the City Attorney.

**EXECUTIVE SUMMARY:** The scope of work for this project is to reconstruct Depot Street in conformance with the City's Downtown Plan from Main Avenue to 5<sup>th</sup> Street. This includes wide, tree-lined sidewalks on the east side of the street; planting strip and sidewalks on the west; bicycle lanes on both sides of the street; pedestrian-scaled street lighting and special paving at street intersections.

The consultant's scope of work shall consist of construction staking, site visit(s) during construction, and completion of project as-builts after completion of project.

Work shall commence towards the end of August, 2006 and be completed by March, 2007.

**FISCAL IMPACT:** The project is funded in the 2006/07 Capital Improvement Program budget, Project No. 539005, Depot Street Reconstruction Project.

**Agenda Item # 13**

**Prepared By:**

**Assistant Engineer**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**





## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **AWARD PROFESSIONAL SERVICES CONTRACT FOR DESIGN OF MISSION VIEW WELL SITE PROJECT**

**RECOMMENDED ACTION(S):** Authorize the City Manager to execute an agreement with Luhdorff & Scalmanini for the design of a test well and preparation of plans and specifications for Mission View Well in the amount of \$60,500.

**EXECUTIVE SUMMARY:** Staff has been working toward acquiring an easement for construction of a new water well. Staff located a water well site and negotiated with the property owner to acquire a portion of his property for the production water well. The site is located off of Mission View Drive (see attached site map).

The City has retained Luhdorff & Scalmanini for engineering and field services for evaluation of the Mission View site for suitability to construct a test well. Luhdorff & Scalmanini has been working for the City on the design of other test holes drilled elsewhere in the City; their prior experience with this process makes them ideal candidates to perform the work. Evaluation of the site will consist primarily of drilling and logging an exploratory test hole to identify target aquifer materials in the prospective test well. LSCE's scope of work includes design of the test well (assuming conditions are favorable), preparation of plans and specifications, and their services for construction oversight and evaluation of pumping tests to be conducted with the test well once it is constructed. The attached proposal outlines the scope of work along with the cost breakdown.

**FISCAL/RESOURCE IMPACT:** The total contract cost for this design is \$60,500 and is funded in our 2006-07 Capital Improvement Program (CIP) Budget, Project #601093, New Well Property/Construction.

**Agenda Item # 14**

**Prepared By:**

**Senior Civil Engineer**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**



## CITY COUNCIL STAFF REPORT

**MEETING DATE:** August 23, 2006

Agenda Item # 15

Prepared By:

Maint. Supervisor

Reviewed by:

Deputy Director Public  
Works Operations

Approved By:

Department Director

Submitted By:

City Manager

### RESOLUTION FOR FUNDING FROM THE URBAN FORESTRY GRANT PROGRAM ENTITLED "GREEN TREES FOR THE GOLDEN STATE"

**RECOMMENDED ACTION:** Approve the attached resolution to authorize Public Works to file an application for "Proposition 12" tree planting grant program funds for the purpose of planting 100 native oak trees in Morgan Hill parks and medians.

#### EXECUTIVE SUMMARY:

California Department of Forestry grant funds will be used to plant 100 native oak trees in city parks and medians in locations where, once established, the trees will grow without irrigation beyond natural rainfall. Several non-landscaped medians on Cochrane Road, Dunne Avenue and Tennant Avenue will be planted as well as "fringe area" locations at Community, Diana, Nordstrom and Paradise Parks.

Morgan Hill Public Works will provide project administration. The City will also provide matching funds in the amount of \$8,000 to install bubbler irrigation to some of the trees. Of the 100 trees, 25 will be planted by volunteers and 75 by a qualified contractor. The grant also provides funds for tree maintenance and dry season watering for the non-irrigated trees for a two year period. At the end of the two year period, tree maintenance costs will be born by the Streets and Parks maintenance budgets.

Approval of this resolution will:

- Authorize submittal of the grant application
- Certify that the City has sufficient funds to operate and maintain the project; certifies that funds under the control of the City Council are available to begin the project.
- Certify that the City will expend grant funds prior to March 31, 2009.
- Appoint the Director of Public Works as agent for the City Council to conduct all negotiations and submit all documents which may be necessary for completion of the project.

#### PROJECT BUDGET

|  | Grant Request   | Matching Funds |
|--|-----------------|----------------|
| <b>TREES AND PLANTING MATERIALS:</b><br>Trees, stakes, ties, mulch, labor for planting, traffic control for median tree planting, irrigation, labor & equipment for watering | \$20,000        | \$8,200        |
| <b>EDUCATION AND SIGNAGE:</b> Signage, Education and communication via city newsletter and website   | \$500           | \$500          |
| <b>ADMINISTRATION AND OVERHEAD:</b> Project planning and administration  | -               | \$500          |
| <b>Total Amounts</b>   | <b>\$24,200</b> | <b>\$9,200</b> |

**FISCAL IMPACT:** Nominal fiscal impact as funds are appropriated in the Streets and Parks Maintenance budgets.

## **RESOLUTION NO.**

### **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING FILING FOR FUNDING FROM THE URBAN FORESTRY GRANT PROGRAM ENTITLED, "GREEN TREES FOR THE GOLDEN STATE", AS PROVIDED THROUGH PROPOSITION 12.**

**WHEREAS**, the Governor of the State of California in cooperation with the California State Legislature has enacted Proposition 12, which provides funds to the State of California and its political subdivisions for urban forestry programs; and

**WHEREAS**, the State Department of Forestry and Fire Protection has been delegated the responsibility for the administration of the program within the State, setting up necessary procedures governing application by local agencies and non-profit organizations under the program, and

**WHEREAS**, said procedures established by the State Department of Forestry and Fire Protection require the applicant to certify by resolution the approval of application before submission of said application to the State; and

**WHEREAS**, the applicant will enter into an agreement with the State of California to carry out a tree planting project;

**THEREFORE, BE IT RESOLVED** that the City Council of the City of Morgan Hill does resolve, determine and order the following:

1. Approved the filing of an application for "PROPOSITION 12" tree planting grant program funds.
2. Certifies that said applicant has or will have sufficient funds to operate and maintain the project.
3. Certifies that funds under the jurisdiction of the City of Morgan Hill are available to begin the project.
4. Certifies that said applicant will expend grant funds prior to March 31, 2009.
5. Appoints the Public Works Department as agent of the City of Morgan Hill to conduct all negotiations, execute and submit all documents including, but not limited to applications, agreements, amendments, payment requests and so on, which may be necessary for the completion of the aforementioned project.

**PASSED AND ADOPTED** by the City Council of Morgan Hill at a Regular Meeting held on the Day of August, 2006 by the following vote:

**AYES: COUNCIL MEMBERS:**  
**NOES: COUNCIL MEMBERS:**  
**ABSTAIN: COUNCIL MEMBERS:**  
**ABSENT: COUNCIL MEMBERS:**

**∞ CERTIFICATION ∞**

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA,** do hereby certify that the foregoing is a true and correct copy of Resolution No. , adopted by the City Council at a Regular Meeting held on August , 2006.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

**DATE:** \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

### **CALIFORNIA CONSERVATION CORPS AGREEMENT FOR VEGETATION ABATEMENT IN STORM CHANNELS, MEDIANS AND PARKS**

**RECOMMENDED ACTION(S):** Authorize the City Manager to enter into an agreement with the California Conservation Corps for vegetation abatement in storm channels, medians and parks throughout the city. The term of the agreement is for fiscal year 2006-07 only in the amount of \$15,000.

**EXECUTIVE SUMMARY:** The California Conservation Corps (CCC) provides training in job skills and environmental education to young men and women through a program which includes public service conservation work. The CCC will provide a work crew, supervisor, transportation, tools and safety equipment to work on various vegetation abatement projects in locations that are not accessible by equipment. The hourly labor rate per the proposed agreement is \$16.50 per worker. Examples of proposed projects include: vegetation removal from the Butterfield Channel, seasonal channels in the Jackson Oaks area, City maintained portion of Fisher Creek, and the Diana Park pathway.

The City Attorney has reviewed and approved the CCC agreement.

**FISCAL IMPACT:** Funds are appropriated in the current year Streets and Parks Maintenance budgets for these services.

**Agenda Item # 16**

**Prepared By:**

**Maint. Supervisor**

**Reviewed by:**

**Deputy Director Public  
Works/Operations**

**Approved By:**

**Department Director**

**Submitted By:**

**City Manager**



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

### **ACCEPT THE SECOND STREET WATER MAIN REPLACEMENT PROJECT**

#### **RECOMMENDED ACTION(S):**

1. Accept as complete the Second Street Water Main Replacement in the final amount of \$160,306.64.
2. Direct the City Clerk to file the attached Notice of Completion with the County Recorder's office.

#### **EXECUTIVE SUMMARY:**

The contract for the Second Street Water Main Replacement Project was awarded to Monterey Peninsula Engineering, by the City Council at their April 5, 2006 meeting, in the amount of \$164,375. The project resulted in the removal and replacement of the water main along Second Street between Del Monte Avenue and Monterey Road.

The work has been completed in accordance with the plans and specifications.

#### **FISCAL/RESOURCE IMPACT:**

This project was budgeted in the 2005-06 Capital Improvements Program budget under Water Main Replacement, Project #610093. The allocated project construction cost including a 10% contingency was \$180,813. The contract was awarded in the amount of \$164,375 and the final contract price is \$160,306.64.

**Agenda Item # 17**

**Prepared By:**

\_\_\_\_\_  
**Assistant Engineer**

**Approved By:**

\_\_\_\_\_  
**Public Works Director**

**Submitted By:**

\_\_\_\_\_  
**City Manager**

Record at the request of  
and when recorded mail to:

CITY OF MORGAN HILL  
CITY CLERK  
17555 Peak Avenue  
Morgan Hill, CA 95037

RECORD AT NO FEE PURSUANT TO GOVERNMENT CODE SECTION 27383

NOTICE OF COMPLETION  
CITY OF MORGAN HILL

SECOND STREET WATER MAIN REPLACEMENT PROJECT

NOTICE IS HEREBY GIVEN, pursuant to Section 3093 of the Civil Code of the State of California, that the Director of Public Works of the City of Morgan Hill, California, on the 23<sup>rd</sup> day of August, 2006, did file with the City Clerk of said City, the contract for performing work which was heretofore awarded to Monterey Peninsula Engineering, on April 5, 2006, in accordance with the plans and specifications for said work filed with the City Clerk and approved by the City Council of said City.

That said improvements were substantially completed on August 10<sup>th</sup>, 2006, accepted by the City Council on August 23, 2006, and that the name of the surety on the contractor's bond for labor and materials on said project is The Continental Insurance Company.

That said improvements consisted of the construction and installation of all items of work provided to be done in said contract, all as more particularly described in the plans and specifications therefor approved by the City Council of said City.

Name and address of Owner: City of Morgan Hill  
17555 Peak Avenue  
Morgan Hill, California

Dated: August 23, 2006.

---

Jim Ashcraft, Director of Public Works

I certify under penalty of perjury that the foregoing is true and correct.

Irma Torrez, City Clerk  
City of Morgan Hill, CA  
Date:



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **APPROVAL OF PAYMENT TO SANTA CLARA COUNTY FOR VEGETATION ABATEMENT ON CITY-OWNED PROPERTY**

**RECOMMENDED ACTION(S):** Approve payment in the amount of \$49,729.42 for vegetation abatement for FY 05-06.

**EXECUTIVE SUMMARY:** This payment is pursuant to our contract with the County Fire Marshall for hazardous vegetation abatement on City owned property. The work performed by the County includes discing and handwork on the City's open space and Assessment District properties. There are approximately 328 acres which require abatement. This year included enhancements to the Edmundson water tank site for the burrowing owl habitat.

Per our agreement, the charges for these services include a reduced administrative fee of 75% of the cost of the contractor. The total cost of vegetation abatement in FY 04-05 was \$33,847. Due to the long wet season this year the open space in the Jackson Oaks area required extra discing as the grass was denser. Another factor in the abatement process is the burrowing owl non-discing ordinance which requires mowing or hand trimming on the valley floor open space.

**FISCAL/RESOURC IMPACT:** Funds are appropriated in the Parks Maintenance and Environmental Programs budgets for the abatement of vegetation on City owned parcels. Each year work is done late spring to early summer. The County tries to complete this work before July but can not guarantee it.

**Agenda Item #** 18

**Prepared By:**

**Management Analyst**

**Approved By:**

**Department Director**

**Submitted By:**

**City Manager**





## **CITY COUNCIL STAFF REPORT**

**MEETING DATE: August 23, 2006**

### **ADOPTION OF RESOLUTION AMENDING 2005 SPEED SURVEY**

#### **RECOMMENDED ACTION(S):**

Adopt attached Resolution amending Resolution No. 5944 which established designated speed limits on city streets.

**EXECUTIVE SUMMARY:** On September 21, 2005 The City Council adopted Resolution #5944 establishing the current speed limits for city streets based on the 2005 Engineering and Traffic Speed Survey. Following adoption of the 2005 Speed Survey a graphical error was discovered on several of the speed plots diagrams contained in the Speed Survey. The graphical error was corrected and the affected speed plots diagrams have been revised. However, one of the recommended speed limits approved by the City Council in September of 2005 was affected by this error. The affected roadway segment was Monterey Road from the northerly City Limit to Peebles Avenue. The recommended speed limit on this roadway segment per resolution no. 5944 is 55 mph. Based on the revised speed plot diagram for this roadway segment the recommended speed limit should be 50mph.

Staff recommends that City Council adopt the attached Resolution amending Resolution No 5944 which established the current speed limits for city streets. The recommended change would adjust the speed limit on Monterey Road from the Northerly City Limit to Peebles Avenue from 55mph to 50mph.

**FISCAL/RESOURCE IMPACT:** No additional staff resources will be required as a result of this amendment. Costs for sign replacement will be insignificant since only one segment will be affected.

**Agenda Item # 19**

**Prepared By:**

**Junior Engineer**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**

**RESOLUTION NO.**

**A RESOLUTION OF THE CITY COUNCIL OF THE  
CITY OF MORGAN HILL AMENDING RESOLUTION  
5944**

**WHEREAS**, as required by the California Vehicle Code, the City adopted a new Engineering and Traffic Survey in 2005; and

**WHEREAS**, Section 10.20.010 of the Municipal Code provides that the City Council may, by resolution, designate speed limits different from those prescribed by State law; and

**WHEREAS**, Resolution No. 5944 established the speed limits within the City of Morgan Hill; and

**WHEREAS**, Section 1 of resolution No. 5944 is to be amended, now

**THEREFORE, BE IT RESOLVED** by the City Council of the City of Morgan Hill as follows:

**(1) REPLACEMENT OF A PORTION OF SECTION 1 OF RESOLUTION NO. 5944**

Subsections “Fifty Miles Per Hour” and “Fifty Five Miles Per Hour” of Section 1 of Resolution No. 5944 are replaced as follows:

**Fifty Miles Per Hour**

Monterey Road from City Limit to Peebles Avenue  
Monterey Road from Watsonville Road to East Middle Avenue

**Fifty Five Miles Per Hour**

No streets within the City Limits are designated as 55mph.

**AND BE IT FURTHER RESOLVED** that these speed limits shall be effective when appropriate signs giving notice thereof are erected upon the street.

**PASSED AND ADOPTED** by the City Council of Morgan Hill at a Regular Meeting held on the Day of August, 2006 by the following vote:

**AYES:            COUNCIL MEMBERS:**  
**NOES:           COUNCIL MEMBERS:**  
**ABSTAIN:       COUNCIL MEMBERS:**  
**ABSENT:        COUNCIL MEMBERS:**

**∞ CERTIFICATION ∞**

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA**, do hereby certify that the foregoing is a true and correct copy of Resolution No. , adopted by the City Council at a Regular Meeting held on August , 2006.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

**DATE:** \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **RESIDENTIAL DEVELOPMENT CONTROL SYSTEM (RDCS) 2006 QUARTERLY REPORT #2**

#### **RECOMMENDED ACTION(S):**

Accept and File the RDCS Second Quarter Report for 2006

#### **EXECUTIVE SUMMARY:**

In accordance with Section 18.78.150 of the Municipal Code, the Community Development Department is required to review, on a quarterly basis, each proposed development which has received a Residential Development Control System (RDCS) allotment. The purpose of this review is to determine whether satisfactory progress is being made with processing of the appropriate plans with the Community Development Department.

The majority of the residential projects are proceeding according to approved development schedules. The following projects are classified as BEHIND SCHEDULE: Del Monte-Giovanni (MC-04-05), San Pedro-Ahmadi (MMC-04-06) and E. Dunne-Kruse (MMC-04-10). Del Monte-Giovanni and E. Dunne Kruse are in process and currently undergoing environmental review. The development schedules will be adjusted prior to Development Agreement approval. San Pedro-Ahmadi is set to go before the Architectural Review Board on September 7, 2006.

During the first quarter monitoring period, RDCS projects have secured 82 additional building permits and completed construction of 50 homes.

By a vote of 7-0-0, the Commission approved the Quarterly Report by minute action and recommended the same by the Council. A copy of the 2nd Quarterly Report for 2006 and the draft minutes of the July 25, 2006 Planning Commission meeting are attached for the Council's reference.

#### **FISCAL IMPACT:**

Preparation of this report was accomplished with monies from the Community Development Fund.

R:\PLANNING\WP51\RDCS\QRPT\2006\2ndQtr.M1C.doc

Agenda Item # 20

Prepared By:

Planning Technician

Approved By:

Kathy Molloy Previsich  
Director of Community  
Development

Submitted By:

J. Edward Tewes, City  
Manager



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

**Agenda Item # 21**

**Prepared By:**

**Municipal Services  
Assistant**

**Approved By:**

**City Clerk**

**Submitted By:**

**City Manager**

### **ADOPT ORDINANCE NO. 1789, NEW SERIES**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING TITLE 18, THE ZONING CODE UNDER CHAPTER 18.47, THE DENSITY BONUS AND INCENTIVES CHAPTER AND CHAPTER 18.55, THE SECONDARY DWELLING UNIT CHAPTER TO COMPLY WITH THE CALIFORNIA GOVERNMENT CODE. (APPLICATION ZA-06-07)**

### **RECOMMENDED ACTION(S):**

**Waive** the Reading, and **Adopt** Ordinance No. 1789, New Series, and **Declare** That Said Title, Which Appears on the Public Agenda, Shall Be Determined to Have Been Read by Title and Further Reading Waived.

### **EXECUTIVE SUMMARY:**

On July 26, 2006, the City Council Introduced Ordinance No. 1789, New Series, by the Following Roll Call Vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.

### **FISCAL IMPACT:**

None. Filing fees were paid to the City to cover the cost of processing this application.

**ORDINANCE NO. 1789, NEW SERIES**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING TITLE 18, THE ZONING CODE UNDER CHAPTER 18.47, THE DENSITY BONUS AND INCENTIVES CHAPTER AND CHAPTER 18.55, THE SECONDARY DWELLING UNIT CHAPTER TO COMPLY WITH THE CALIFORNIA GOVERNMENT CODE. (APPLICATION ZA-06-07)**

**WHEREAS**, California Government Code Section 65915 requires the City of Morgan Hill to adopt provisions granting density bonuses and other incentives to developers of residential projects that construct or otherwise provide for housing units that will be affordable for purchase or rent by senior citizens and lower income persons and households; and

**WHEREAS**, the City of Morgan Hill has adopted the requirements of Government Code Section 95915 under Chapter 18.47 of the Morgan Hill Municipal Code; and,

**WHEREAS**, the California legislature has amended Government Code Section 95915 requiring the City to amend Chapter 18.47 to comply with the Government Code changes; and

**WHEREAS**, to insure that the City's Municipal Code remains in compliance with the State Density Bonus law, it is proposed that Chapter 18.47 be amended to adopt Government Code Section 95915 by reference; and,

**WHEREAS**, Chapter 18.55 of the Morgan Hill Municipal Code provides for secondary dwelling units in certain areas and on lots developed or proposed to be developed with single-family dwellings; and

**WHEREAS**, Section 18.55.030 of Chapter 18.55 requires a conditional use permit for a secondary dwelling in the R-1 (7000) and R-1 (9000) zoning districts; and

**WHEREAS**, the requirement for a conditional use permit has been pre-empted under a change in State law that requires secondary dwelling units to be a permitted use in all allowable zoning districts; and

**WHEREAS**, to comply with the change in State law, it is proposed that Chapter 18.55 be amended to eliminate the conditional use permit requirement for secondary dwellings; and

**WHEREAS**, testimony and exhibits received at a noticed public hearing have been duly considered;

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY ORDAIN AS FOLLOWS:**

- SECTION 1.** Title 18, Chapter 18.47 of the Morgan Hill Municipal Code is amended as shown in Part 1 in the attached Exhibit A.
- SECTION 2.** Title 18, Chapter 18.55 of the Morgan Hill Municipal Code is amended as shown in Part 2 in the attached Exhibit A.
- SECTION 3.** Severability. If any part of this Ordinance is held to be invalid or inapplicable to any situation by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance or the applicability of this Ordinance to other situations.
- SECTION 4.** Effective Date; Publication. This ordinance shall take effect thirty (30) days after the date of its adoption. The City Clerk is hereby directed to publish this ordinance pursuant to §36933 of the Government Code.

The foregoing ordinance was introduced at the regular meeting of the City Council of the City of Morgan Hill held on the 26<sup>th</sup> Day of July 2006, and was finally adopted at a regular meeting of said Council on the Day of August 2006, and said ordinance was duly passed and adopted in accordance with law by the following vote:

**AYES:**           **COUNCIL MEMBERS:**  
**NOES:**           **COUNCIL MEMBERS:**  
**ABSTAIN:**   **COUNCIL MEMBERS:**  
**ABSENT:**   **COUNCIL MEMBERS:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
**Irma Torrez, City Clerk**

\_\_\_\_\_  
**Dennis Kennedy, Mayor**

**∞ CERTIFICATE OF THE CITY CLERK ∞**

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA,** do hereby certify that the foregoing is a true and correct copy of Ordinance No. 1789, New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the Day of August 2006.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**

## EXHIBIT A

### PART 1:

#### Chapter 18.47

#### AFFORDABLE HOUSING BONUSES AND OTHER INCENTIVES

##### Sections:

- 18.47.010 Purpose of chapter.
- 18.47.020 Density bonuses.
- 18.47.030 Definitions.
- 18.47.040 Application.
- 18.47.050 Retaining affordability.
- 18.47.060 Affordable rents.

#### 18.47.010 Purpose of chapter.

It is the purpose of this chapter to encourage the provision of affordable housing in the community by granting bonuses and other incentives to developers of residential projects that construct or otherwise provide for housing units that will be available for purchase or rent by senior citizens and lower income persons and households. *A density bonus may also be granted for the inclusion of designated recreational amenities as provided for under Chapter 18.18 of the Municipal Code.* (Ord. 1009 N.S. § 2 (part), 1991)

#### 18.47.020 Density bonuses.

~~A. When a developer of housing agrees or proposes to construct at least (1) twenty percent of the total units of a housing development for lower income households, as defined in Section 50079.5 of the state Health and Safety code, or (2) ten percent of the total units of a housing development for very low income households, as defined in Section 50105 of the Health and Safety Code, or (3) fifty percent of the total dwelling units of a housing development for senior citizen housing, as defined in Section 51.2 of the state Civil Code, the city shall:~~

~~1. grant a density bonus and at least one concession or incentive unless the city makes a written finding that the additional concession or incentive is not required in order to provide for affordable housing costs as defined in Section 50052.5 of the state Health and Safety Code or for rents for the targeted units to be set as specified in Section 18.47.060, or may~~

~~2. Provide other incentives of equivalent financial value based upon the land cost per dwelling unit.~~

~~B. If a developer agrees to construct both twenty percent of the total units for lower income households and ten percent of the total units for very low income households, the developer is entitled to one density bonus and one additional concession or incentive.~~

~~Additional bonuses, concessions and/or incentives may be granted by the planning commission upon finding that the project provides a greater percentage of units for lower income households.~~

***Residential development projects that comply with this chapter may request a density bonus. The city council, upon request, may approve an increase in the number of units permitted in a proposed residential development project provided that the increase in density is consistent with the state density bonus law as set forth in Section 65915 of the California Government Code as amended.***

€ B. Density bonuses of up to twenty-five percent may ***also*** be granted for the inclusion of designated amenities as provided for under Chapter 18.18.

~~The total of affordable housing bonuses and design bonuses shall not exceed twenty-five percent. (Ord. 1009 N.S. § 2 (part), 1991)~~

#### **18.47.030 Definitions.**

A. For the purposes of Section 18.47.020(A) ~~and (B)~~, "density bonus" means a density increase of ~~at least twenty-five~~ ***to thirty five*** percent over the otherwise maximum allowable residential density for the net lot area as defined in Section 18.04.250 of this chapter ***and as provided in Government Code Section 95915.*** ~~The density bonus shall not be included when determining the number of housing units which is equal to ten or twenty percent of the total.~~

B. For the purposes of this chapter, "concession" or "incentive" means any of the following:

1. A reduction in site development standards or a modification of zoning code requirements or architectural design requirements which exceed the minimum building standards approved by the State Building Code Standards Commission as provided in Part 2.5 (commencing with Section 18901) of Division 13 of the Health and Safety Code, including, but not limited to, a reduction in lot size, lot dimensions and building setbacks.

2. Other regulatory incentives or concessions ***set forth in Government Code Section 95915 or*** proposed by the developer or the city which result in identifiable cost reductions.

C. "Housing development" as used in this chapter, means one or more groups of projects for residential units constructed in the planned unit development of the city. (Ord. 1323 N.S. § 14, 1997; Ord. 1009 N.S. § 2 (part), 1991)

#### **18.47.040 Application.**

A. The density bonus referred to in Section 18.47.020(A) shall apply to ~~housing developments consisting of five or more dwelling units. Density bonuses referred to under Section 18.47.020(C) may be applied to~~ any residential development proposal.

B. Density bonuses of up to twenty-five percent ~~also~~ may ***also*** be granted for the inclusion of designated amenities as provided for under Chapter 18.18. (Ord. 1009 N.S. § 2 (part), 1991)



**18.47.050      Retaining affordability.**

A developer shall agree to and the city shall ensure continued affordability of all lower income density bonus units for thirty years or a longer period of time if required by the construction or mortgage financing assistance program, mortgage insurance program, or rental subsidy program. If the city does not grant at least one additional concession or incentive, the developer shall agree to and the city shall ensure continued affordability for a minimum of ten years of all lower income housing units receiving a density bonus. (Ord. 1009 N.S. § 2 (part), 1991)

**18.47.060      Affordable rents.**

Those units targeted for lower income households, as defined in Section 50079.5 of the Health and Safety Code shall be affordable at a rent that does not exceed thirty percent of sixty percent of the Santa Clara County median income. Those units targeted for very low income households, as defined in Section 50105 of the Health and Safety Code shall be affordable at a rent that does not exceed thirty percent of fifty percent of county median income. (Ord. 1009 N.S. § 2 (part), 1991)

**PART 2:**

**Chapter 18.55**

**SECONDARY DWELLING UNITS**

Sections:

18.55.010      Purpose.

18.55.020      Applicability.

~~18.55.030      Use Permit Required~~

~~18.55.040      Use Permit Additional Findings~~

~~18.55.050~~ **030** Development standards for new secondary dwelling units.

**18.55.010      Purpose.**

This chapter provides for secondary dwelling units in certain areas and on lots developed or proposed to be developed with single-family dwellings. Such secondary dwellings are allowed because they can contribute needed housing to the community's housing stock. Their inclusion on the same lot as the primary dwelling will tend to diminish their impact on the surrounding area and on services. Thus, it is found that secondary dwelling units do not exceed the allowable density for the lot upon which they are located; and further, secondary units are a residential use which is consistent with the general plan and zoning regulations. (Ord. 884 N.S. § 3 (part), 1988)

**18.55.020      Applicability.**

Secondary dwelling units shall only be allowed in the following zones:

- A.      O-S District: on lots of five acres (net) or more;
- B.      R-1 (7,000): on lots of seven thousand square feet or more;
- C.      R-1 (9,000): on lots of nine thousand square feet or more;
- D.      R-1 (12,000): on lots of twelve thousand square feet or more;
- E.      R-1 (20,000): on lots of twenty thousand square feet or more;
- F.      R-E (40,000): on lots of forty thousand square feet or more;
- G.      R-E (100,000): on lots of one hundred thousand square feet or more. (Ord. 1135 § 59, 1993; Ord. 908 § 1, 1989; Ord. 884 § 3 (part), 1988)

**~~18.55.030      Use Permit Required.~~**

~~A.      Secondary dwelling units shall only be permitted in the R-1 (7,000) and R-1 (9,000) districts after securing a conditional use permit pursuant to the provisions of this Chapter and Chapter 18.54 of the Morgan Hill Municipal Code. A conditional use permit shall not be required where such use is shown on a precise development plan approved under an RPD, Residential Planned Development Overlay District.~~

~~B.      In the R-1 (12,000), R-1 (20,000), R-E (40,000) R-E (100,000) and O-S districts, secondary dwelling units shall be permitted uses. (Ord 1343 N.S. § 4 (part), 1997)~~

**~~18.55.040      Use Permit - Additional Findings.~~**

~~In addition to the findings contained in Section 18.54.050 of the Morgan Hill Municipal Code, the Planning Commission must make the following findings in the affirmative before it may grant a conditional use permit for a secondary dwelling unit:~~

~~A.      The proposed dwelling conforms or will conform to the provisions and requirements of this Chapter, the local adopted building and fire codes as amended, and the Zoning Ordinance as contained in Title 18 of the Morgan Hill Municipal Code.~~

~~B.      The design of the secondary dwelling unit is compatible with the design and scale of the existing dwelling and the general character of the neighboring residential properties. (Ord 1343 N.S. § 4 (part), 1997)~~

**18.55.050 030    Development standards for new secondary dwelling units.**

Secondary dwelling units shall be subject to the same requirements as any dwelling located on the same parcel in the same zoning district, with the following differences:

A.      Number of Secondary Dwelling Units. One secondary dwelling unit is permitted for each appropriately zoned parcel that contains single-family dwelling.

B.      Minimum Lot Area per Dwelling Unit. The minimum lot area per dwelling unit required by the applicable district shall apply, except as required by the Hillside Combining District, whichever is larger.

C.      Maximum Unit Size. No portion of an attached secondary dwelling unit shall occupy more than thirty percent of the existing living area of the primary dwelling.

The total floor area of an attached or detached secondary dwelling unit shall not exceed the following:

1. In the R-1 (7,000), R-1 (9,000) and R-1 (12,000) districts: six hundred forty square feet;
2. In the R-1 (20,000) districts: seven hundred fifty square feet;
3. In the R-E (40,000) district: nine hundred square feet;
4. In the R-E (100,000) and O-S districts: one thousand square feet.

D. Relationship to Primary Dwelling Unit. Secondary dwelling units may be either detached from, or attached to the primary dwelling unit on the property. A detached unit must conform to the building setback and lot coverage limitations contained in the applicable zoning district and shall be setback a minimum of six feet from the primary dwelling unit.

E. Required Off-Street Automobile Parking Spaces. There shall be provided at time of establishment of a secondary dwelling unit, a minimum of one space for a studio or one bedroom secondary unit and a minimum of two spaces for secondary dwelling unit containing two bedrooms, in addition to those required for the primary dwelling unit. Off-street parking spaces for the secondary dwelling unit may be uncovered, but shall conform to all other applicable requirements contained in Chapter 18.50. Off-street parking for a secondary dwelling may be located within the front, side or rear yard areas, provided that the parking spaces are setback a minimum of five feet from any interior lot line and fifteen feet from any side property line on the street side of a corner lot.

F. Design.

1. The design of the secondary dwelling unit shall be compatible with the design and scale of the existing dwelling (using substantially the same landscaping, color, materials and design on the exterior) and the general character of the neighboring residential properties.

G. Septic Tank Disposal System. Detached secondary dwelling units shall provide separate and independent septic tank sewage disposal systems. All leach lines shall be designed and installed in accordance with Bulletin A, "Septic Tank Sewage Disposal System," or other current septic system requirements issued by the Santa Clara County Environmental Health Services. This provision shall only apply in areas of the city where septic tank disposal systems are allowed due to lack of sanitary sewer lines. In other areas of the city, the second unit shall be connected to the sanitary sewer system through the existing lateral line serving the primary dwelling unit.

~~H. Local Street Standards. Secondary dwelling units may be allowed in all areas of the city as provided herein where local street access meets minimum city standards. Minimum city standards for public streets require the public right-of-way measure at least fifty feet in width, and for the curb to curb distance to measure at least forty feet in width. Secondary dwelling units may be located in areas which contain private streets, provided the private streets conform to minimum public street standards.~~

H. Maximum Number of Bedrooms. No more than two bedrooms may be constructed in a secondary dwelling unit. (Ord. 1343 N.S. §§ 5, 6 & 7, 1997; Ord. 1135 N.S. §§ 58, 60, 61, 62, 63, 64 & 65, 1993; Ord. 958 N.S. § 1, 1989; Ord. 908 N.S. §§ 6, 7, 1989; Ord. 884-A § 1, 1989; Ord. 884 § 3 (part), 1988



**REDEVELOPMENT AGENCY**  
***STAFF REPORT***

***MEETING DATE:*** August 23, 2006

**JULY 2006 FINANCE & INVESTMENT REPORT**

**RECOMMENDED ACTION:**

Accept and File Report

**EXECUTIVE SUMMARY:** Attached is the monthly Finance and Investment Report of the Redevelopment Agency of the City of Morgan Hill for the month of July 2006. The report covers activity for the first month of the 2006/2007 fiscal year. A summary of the report is included on the first page for the Board's benefit.

The Redevelopment Agency monthly Finance and Investment Report is presented to the Agency Board and our Citizens as part of our ongoing commitment to improve and maintain public trust through communication of our finances, budget and investments. The report also serves to provide the information necessary to determine the adequacy/stability of financial projections and develop equitable resource/revenue allocation procedures.

This report covers all fiscal activity of the Redevelopment Agency.

**FISCAL IMPACT:** Resources were budgeted for the preparation of this report. The preparation will not affect the 2006/07 Finance Department work plan.

**Agenda Item # 22**

**Prepared By:**

**Finance Director**

**Submitted By:**

**Executive director**

**REDEVELOPMENT AGENCY OF  
THE CITY OF MORGAN HILL**

**Monthly Financial and Investment Reports**

**July 31, 2006 – 8% Year Complete**



**CITY OF MORGAN HILL  
REDEVELOPMENT AGENCY**

**Prepared by:**

**FINANCE DEPARTMENT**



**REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL, CALIFORNIA**  
**FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2006/07**  
**FOR THE MONTH OF JULY 2006 - 8% OF YEAR COMPLETE**

**Revenues**

Through July 31, the Redevelopment Agency received property tax increment revenues. Most property tax increment revenues are received in December and April. The Redevelopment Agency, as of July 31, 2006, has collected \$100,000,000 in tax increment revenue under the original plan and has collected \$117,815,984, net of pass-through obligations to other agencies, toward the plan amendment cap of \$147,000,000. All tax increment revenues collected during 2006/2007 were collected under the plan amendment.

An amount of \$4,210 in interest earnings and other income was received during July. Additional interest earnings for July have not yet been apportioned, but will be following the quarter ending September 30.

**Expenditures**

Total Redevelopment Agency Capital Projects expenditures and encumbrances equaled \$16,692,468, or 43% of the budget. Of this total, \$16,527,315 represented encumbrances for capital projects and other commitments. If the encumbrances were excluded, the RDA would have spent only 1% of the budget. Expenditures for administrative costs for employee services, supplies, and contract services were 5% of budget. During July 2006, CIP project expenditures totaled \$16,358.

Expenditures plus encumbrances for Housing were at 2% of the budget for a total of \$237,831. All of the 2006/07 housing related expenditures have been funded with tax increment collected under the plan amendment.

**Fund Balance**

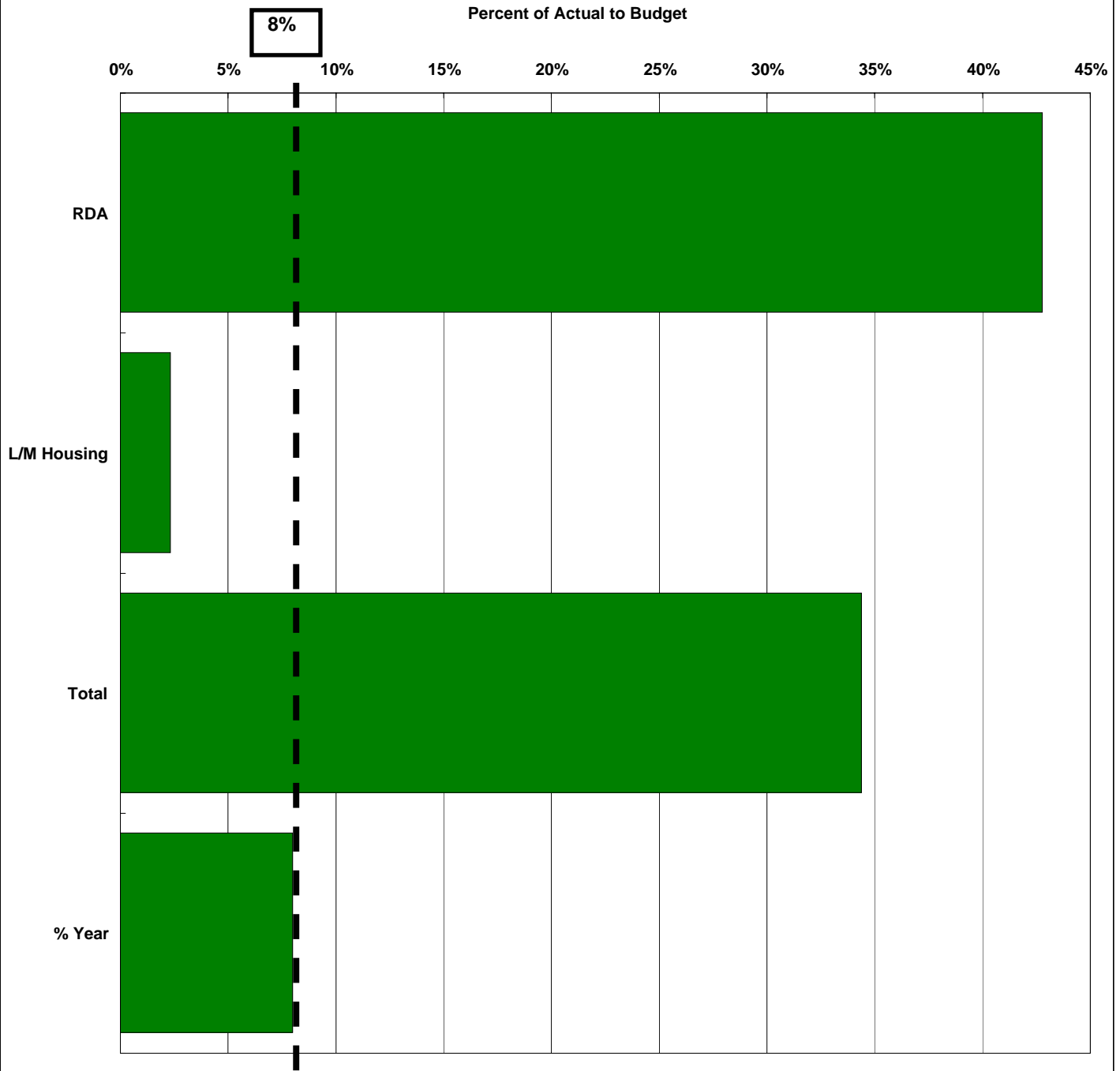
The unreserved fund balance of a negative (\$4,579,333) for the Capital Projects Fund at July 31, 2006, consisted entirely of monies collected under the plan amendment. The unreserved fund balance included future obligations to pay an additional \$875,000 for the Courthouse Facility and \$1.61 million for the Lomanto property should the Agency agree to execute its option to purchase in accordance with the agreement. If all these future commitments are subtracted from the negative (\$4,579,333), the remaining unreserved fund balance at July 31 would be a negative (\$2,094,333). However, these commitments are expected to be paid out over the next several years. Property tax increment receipts in the near future will provide the resources necessary to carry the Agency through the remainder of this fiscal year. The Capital Projects Fund cash balance at July 31 was \$11,338,181.

The unreserved fund balance of \$7,394,076 for the Housing Fund at July 31 consisted of funds all collected under the plan amendment.



# Redevelopment Agency YTD Expenditures

July 31, 2006



| Expenditure Category | Budget       | Actual Plus Encumbrances | % of Budget |
|----------------------|--------------|--------------------------|-------------|
| CAPITAL PROJECTS     | \$39,029,392 | \$16,692,468             | 43%         |
| HOUSING              | 10,217,193   | 237,831                  | 2%          |
| TOTALS               | \$49,246,585 | \$16,930,299             | 34%         |



# Redevelopment Agency YTD Revenues

July 31, 2006

8%

Percent of Actual to Budget

0% 1% 2% 3% 4% 5% 6% 7% 8% 9%

Property Tax

Interest/Other

Total Revs

% Year

| REVENUE CATEGORY            | BUDGET       | ACTUAL  | % OF BUDGET | PRIOR YEAR TO DATE | % CHANGE FROM PRIOR YEAR |
|-----------------------------|--------------|---------|-------------|--------------------|--------------------------|
| PROPERTY TAXES              | \$25,157,965 |         |             | \$151,823          | -100%                    |
| INTEREST INCOME/RENTS/OTHER | \$290,753    | \$4,210 | 1%          | \$4,746            | -11%                     |
| TOTALS                      | \$25,448,718 | \$4,210 |             | \$156,569          | -97%                     |





Redevelopment Agency  
Fund Balance Report - Fiscal Year 2006/07  
For the Month of July 2006  
8% of Year Complete

| Fund No.                           | Fund                   | Unaudited Fund Balance<br>06-30-05 | Revenues     |             | Expenditures   |             | Year to-Date Deficit or Carryover | Ending Fund Balance   |                  | Cash and Investments |            |
|------------------------------------|------------------------|------------------------------------|--------------|-------------|----------------|-------------|-----------------------------------|-----------------------|------------------|----------------------|------------|
|                                    |                        |                                    | YTD Actual   | % of Budget | YTD Actual     | % of Budget |                                   | Reserved <sup>1</sup> | Unreserved       | Unrestricted         | Restricted |
| 317                                | CAPITAL PROJECTS       | \$12,182,379                       | 1,805        | 0%          | 165,153        | 0%          | (163,348)                         | 16,598,364            | (4,579,333)      | \$11,338,181         |            |
| 327/328                            | HOUSING                | \$6,764,866                        | 2,405        | 0%          | 143,947        | 1%          | (141,542)                         | 664,015               | \$7,394,076      | \$7,975,959          |            |
| <b>TOTAL CAPITAL PROJECT FUNDS</b> |                        | <b>\$18,947,245</b>                | <b>4,210</b> | <b>0%</b>   | <b>309,100</b> | <b>1%</b>   | <b>(304,890)</b>                  | <b>17,262,379</b>     | <b>2,814,743</b> | <b>19,314,140</b>    |            |
| <b>SUMMARY BY FUND TYPE</b>        |                        |                                    |              |             |                |             |                                   |                       |                  |                      |            |
|                                    | CAPITAL PROJECTS GROUP | \$18,947,245                       | 4,210        | 0%          | 309,100        | 1%          | (304,890)                         | 17,262,379            | 2,814,743        | 19,314,140           |            |
| <b>TOTAL ALL GROUPS</b>            |                        | <b>\$18,947,245</b>                | <b>4,210</b> | <b>0%</b>   | <b>309,100</b> | <b>1%</b>   | <b>(304,890)</b>                  | <b>17,262,379</b>     | <b>2,814,743</b> | <b>19,314,140</b>    |            |
| <b>TOTAL CASH AND INVESTMENTS</b>  |                        |                                    |              |             |                |             |                                   |                       |                  | <b>19,314,140</b>    |            |

<sup>1</sup> Amount reserved for encumbrances, fixed asset replacement, long-term receivables



Redevelopment Agency  
Year to Date Revenues - Fiscal Year 2006/07  
For the Month of July 2006  
8% of Year Complete

| FUND<br>REVENUE<br>SOURCE           | ADOPTED<br>BUDGET | AMENDED<br>BUDGETED | CURRENT<br>YTD<br>ACTUAL | %<br>OF BUDGET | PRIOR<br>YTD   | INCREASE<br>(DECREASE)<br>FROM PRIOR<br>YTD | %<br>CHANGE |
|-------------------------------------|-------------------|---------------------|--------------------------|----------------|----------------|---|-------------|
| <b>CAPITAL PROJECTS FUNDS</b>       |                   |                     |                          |                |                |   |             |
| <b>317 CAPITAL PROJECTS</b>         |                   |                     |                          |                |                |   |             |
| Property Taxes & Supplemental Roll  | 20,623,665        | 20,623,665          | -                        | n/a            | 121,458        | (121,458)                                   | -100%       |
| Loan Proceeds                       | -                 | -                   | -                        | n/a            | -              | -   | n/a         |
| Interest Income, Rents              | 125,890           | 125,890             | 1,805                    | 1%             | 1,096          | 709   | 65%         |
| Other Agencies/Current Charges      | -                 | -                   | -                        | n/a            | 385            | (385)                                       | -100%       |
| <b>TOTAL CAPITAL PROJECTS</b>       | <b>20,749,555</b> | <b>20,749,555</b>   | <b>1,805</b>             | <b>0%</b>      | <b>122,939</b> | <b>(121,134)</b>                            | <b>-99%</b> |
| <b>327/328 HOUSING</b>              |                   |                     |                          |                |                |   |             |
| Property Taxes & Supplemental Roll  | 4,534,300         | 4,534,300           | -                        | n/a            | 30,365         | (30,365)                                    | -100%       |
| Interest Income, Rent               | 151,510           | 151,510             | 1,584                    | 1%             | 2,325          | (741)                                       | -32%        |
| Other                               | 13,353            | 13,353              | 821                      | na             | 940            | (119)                                       | -13%        |
| <b>TOTAL HOUSING</b>                | <b>4,699,163</b>  | <b>4,699,163</b>    | <b>2,405</b>             | <b>0%</b>      | <b>33,630</b>  | <b>(31,225)</b>                             | <b>-93%</b> |
| <b>TOTAL CAPITAL PROJECTS FUNDS</b> | <b>25,448,718</b> | <b>25,448,718</b>   | <b>4,210</b>             | <b>0%</b>      | <b>156,569</b> | <b>(152,359)</b>                            | <b>-97%</b> |



**Redevelopment Agency**  
**Year to Date Expenses - Fiscal Year 2005/2006**  
**For the Month of July 2006**  
**8% of Year Complete**

| FUND NO.                           | FUND/ACTIVITY                 | THIS MONTH ACTUAL EXPENDITURES | AMENDED BUDGET           | YTD EXPENDITURES      | OUTSTANDING ENCUMBRANCES | TOTAL ALLOCATED          | % OF TOTAL TO BUDGET | PRIOR YTD             |
|------------------------------------|-------------------------------|--------------------------------|--------------------------|-----------------------|--------------------------|--------------------------|----------------------|-----------------------|
| 317 CAPITAL PROJECTS               |                               |                                |                          |                       |                          |                          |                      |                       |
|                                    | Tax Increment Pass Thru ERAF  | -                              | -                        | -                     | -                        | -                        | n/a                  |                       |
|                                    | BAHS Administration           | 138,795                        | 4,700,342                | 138,795               | 75,815                   | 214,610                  | 5%                   | 108,906               |
|                                    | BAHS Economic Development     | 10,000                         | 4,482,274                | 10,000                | 362,290                  | 372,290                  | 8%                   | 1,957                 |
|                                    | BAHS CIP                      | <u>16,358</u>                  | <u>29,846,776</u>        | <u>16,358</u>         | <u>16,089,210</u>        | <u>16,105,568</u>        | <u>54%</u>           | <u>124,370</u>        |
|                                    | <b>TOTAL CAPITAL PROJECTS</b> | <b><u>165,153</u></b>          | <b><u>39,029,392</u></b> | <b><u>165,153</u></b> | <b><u>16,527,315</u></b> | <b><u>16,692,468</u></b> | <b><u>43%</u></b>    | <b><u>235,233</u></b> |
| 327 AND 328 HOUSING                |                               |                                |                          |                       |                          |                          |                      |                       |
|                                    | Housing                       | <u>143,947</u>                 | <u>10,217,193</u>        | <u>143,947</u>        | <u>93,884</u>            | <u>237,831</u>           | <u>2%</u>            | <u>63,287</u>         |
|                                    | <b>TOTAL HOUSING</b>          | <b><u>143,947</u></b>          | <b><u>10,217,193</u></b> | <b><u>143,947</u></b> | <b><u>93,884</u></b>     | <b><u>237,831</u></b>    | <b><u>2%</u></b>     | <b><u>63,287</u></b>  |
| <b>TOTAL CAPITAL PROJECT FUND:</b> |                               | <b>309,100</b>                 | <b>49,246,585</b>        | <b>309,100</b>        | <b>16,621,199</b>        | <b>16,930,299</b>        | <b>34%</b>           | <b>298,520</b>        |



**Redevelopment Agency of the City of Morgan Hill**  
**Balance Sheet Report - Fiscal Year 2005/06**  
**For the Month of July 2006**  
**8% of Year Complete**

|   | <b>CAPITAL PROJECTS<br/>(Fund 317)</b> | <b>Housing<br/>(Fund 327/328)</b> |
|---|--|-----------------------------------|
| <b>ASSETS</b>                             |  |                                   |
| Cash and investments:                     |  |                                   |
| Unrestricted                              | 9,216,853                              | 7,864,674                         |
| Accounts Receivable                       | 46,522                                 | 88,828                            |
| Loans Receivable <sup>1</sup>             | 3,382,329                              | 37,771,418                        |
| Advance to Other Funds                    |  |                                   |
| Fixed Assets <sup>2</sup>                 | 71,049                                 | 174,360                           |
| Other Assets                              |  |                                   |
| <b>Total Assets</b>                       | <b>12,716,753</b>                      | <b>45,899,280</b>                 |
| <b>LIABILITIES</b>                        |  |                                   |
| Accounts Payable and Accrued Liabilities  | 223,400                                | 66,305                            |
| Deferred Revenue <sup>3</sup>             | 3,286,896                              | 37,774,884                        |
| Accrued Vacation and Comp Time            |  |                                   |
| <b>Total liabilities</b>                  | <b>3,510,296</b>                       | <b>37,841,189</b>                 |
| <b>FUND BALANCE</b>                       |  |                                   |
| Fund Balance                              |  |                                   |
| Reserved for:                             |  |                                   |
| Encumbrances                              | 16,527,315                             | 489,655                           |
| Advance to Other Funds                    |  |                                   |
| Properties Held for Resale                | 71,049                                 | 174,360                           |
| Loans and Notes Receivable                |  |                                   |
| <b>Total Reserved Fund balance</b>        | <b>16,598,364</b>                      | <b>664,015</b>                    |
| Unreserved Fund Balance                   | (7,391,907)                            | 7,394,076                         |
| <b>Total Fund Balance</b>                 | <b>9,206,457</b>                       | <b>8,058,091</b>                  |
| <b>Total Liabilities and Fund Balance</b> | <b>12,716,753</b>                      | <b>45,899,280</b>                 |

<sup>1</sup> Includes Housing Rehab loans and loans for several housing and Agency projects.

<sup>2</sup> Includes RDA properties held for resale.

<sup>3</sup> Includes the deferred payment portion of the loans noted above.



## **REDEVELOPMENT AGENCY**

**MEETING DATE:** August 23, 2006

Agenda Item #

Prepared By:

Senior Coordinator

Approved By:

Acting BAHS Director

Submitted By:

Executive Director

### **URBAN HOUSING COMMUNITIES (UHC) - SENIOR HOUSING PROJECT**

**RECOMMENDED ACTION(S):** Authorize the Executive Director to do everything necessary and appropriate to: 1) purchase/acquire a 2.77 acre site at 98 E. Central Avenue from Capogeannis Trust for \$3.725M (less UHC deposits of \$75,000) plus closing/escrow costs intended for development as affordable housing; 2) accept assignment of Purchase Agreement for the site from UHC; and 3) execute an Exclusive Right to Negotiate (ERN) agreement providing a 12-month period to negotiate a possible disposition and development agreement with UHC to develop the site.

**EXECUTIVE SUMMARY:** At the July 26, 2006 meeting, the Agency Board authorized Staff to complete necessary due diligence and bring this transaction back to the Board for possible final approval. Urban Housing Communities, LLC (UHC), an experienced developer of affordable housing projects, entered into a Purchase Agreement with the Capogeannis Trust in November 2004, and amended in July 2006, to acquire the 2.77 acre site. The Close of Escrow has been extended until August 31, 2006. If the site is not purchased by that date, the Purchase Agreement will terminate unless further extended by payment of \$18,625 for a 30-day extension. UHC has been working with Staff on project design and has secured housing allotments for a 49-unit affordable senior apartment complex under the City's Residential Development Control System (Measure C). However, UHC is not financially able to acquire the site at this time. Therefore, UHC is seeking to assign its rights under the Purchase Agreement to the Agency. The assignment is tied to UHC entering into an Exclusive Right to Negotiate (ERN) with the Agency to acquire and develop the site pursuant to a DDA, which would require public notice and Agency Board approval. The ERN does not guarantee that the Agency will enter into a DDA with UHC, and if it does not, then the Agency would pay UHC \$171,836, which includes \$75,000 in deposits UHC paid toward the purchase price of the site, \$10,000 for an additional extension of the Purchase Agreement and \$86,836 in pre-development costs (such as environmental assessments and Measure C competition expenses) which benefit the Agency as owner of the property.

An appraisal of the property estimates the market value of the site at \$3.86M as of July 2006. Phase I and Phase II environmental assessments indicate surface contamination on the top 2 to 3 inches of soil from stain oils and sheens which will be remediated through the excavation process during construction which is not uncommon in projects of this nature. Furthermore, there is an existing building on the site which will have to be demolished. There currently are two month-to-month tenants on the site, both of whom are intended to be relocated as soon as possible so the site is available for immediate development.

**FISCAL/RESOURCE IMPACT:** The BAHS FY06-07 budget allocated sufficient funding for the acquisition of this property.

**CITY OF MORGAN HILL  
JOINT SPECIAL & REGULAR CITY COUNCIL AND  
REGULAR REDEVELOPMENT AGENCY MEETING  
MINUTES – JULY 19, 2006**

**CALL TO ORDER**

Mayor/Chairman Kennedy called the special meeting to order at 6:00 p.m.

**ROLL CALL ATTENDANCE**

Present: Council/Agency Members Carr, Grzan, Tate and Mayor/Chairman Kennedy  
Late: Council/Agency Member Sellers (arrived at 6:25 p.m.)

**DECLARATION OF POSTING OF AGENDA**

City Clerk/Agency Secretary Torrez certified that the special and regular meeting agenda was duly noticed and posted in accordance with Government Code 54954.2.

***City Council Action***

**CLOSED SESSIONS:**

City Attorney Kern announced the below listed closed session item.

**1.**

**CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION**

Authority: Government Code Section 54956.9(a)  
Case Name: Arcadia Development Company v. City of Morgan Hill  
Case Number: County of Santa Clara No. 1-04-CV-020598.  
Attendees: City Manager; City Attorney; Special Counsel Ellison Folk

**OPPORTUNITY FOR PUBLIC COMMENT**

Mayor Kennedy opened the Closed Session item to public comment. No comments were offered.

**ADJOURN TO CLOSED SESSION**

Mayor Kennedy adjourned the meeting to Closed Session at 6:05 p.m.

Council Member Sellers joined the Council in closed session.

**RECONVENE**

Mayor/Chairman Kennedy reconvened the meeting at 7:00 p.m.

**CLOSED SESSION ANNOUNCEMENT**

City Attorney Kern announced that no reportable action was taken in closed session.

## **SILENT INVOCATION**

## **PLEDGE OF ALLEGIANCE**

## **PROCLAMATIONS**

## **RECOGNITIONS**

Mayor Kennedy indicated that during the past week, the City has been fortunate to have a visiting artist from the City's Sister City of San Martin de Hidalgo, Jalisco, Mexico. He indicated that Professor Eduardo Ramirez Lopes has a special type of art on display at the Community & Cultural Center. He presented Professor Lopes with a Certificate of Appreciation for sharing his exceptional art work with the citizens of Morgan Hill.

Professor Eduardo Ramirez Lopes stated that he was honored to be in Morgan Hill. He comes as a representative from his town of San Martin de Hidalgo; extending his town's cordial greetings to the City. It is his hope that with the art interchange taking place, it will help strengthen the relationships between the two cities. He stated that the doors are open for cultural exchanges for Morgan Hill and to be exhibited in San Martin de Hidalgo.

## **CITY COUNCIL REPORT**

Mayor Pro Tempore Grzan deferred his report to the next Council meeting.

## **CITY COUNCIL COMMITTEE REPORTS**

## **CITY MANAGER REPORT**

City Manager Tewes reported on the Olin Perchlorate contamination case. He indicated that Olin has not been ordered, by the Regional Water Quality Control Board, to clean up the ground water pollution for that portion of the plume north of Tennant Avenue. As a result, the City and its rate payers are paying for the treatment of groundwater at the Nordstrom well to make sure the City's customers receive water that meets state and federal standards. He stated that Olin's position has been that if there is perchlorate in the City's wells, it must have been caused by someone else. Although Olin has not yet been ordered to clean up the perchlorate, they have been directed to investigate. He indicated that the results of the investigations are that Olin has found perchlorate in the City's wells as well as in the deep aquifer 1,000 feet from the Olin site. He said that Olin has proposed a clean-up level for that portion of the plume south of Tennant Avenue. Olin is proposing that their perchlorate be allowed to remain in the ground water unless it has reached concentrations of 6 parts per billion. He said that it is staff's belief that this proposal is different from state law requirements. He stated that typically, a polluter is required, by law, to clean up the groundwater basin to the level prior to pollution. If Olin is successful in convincing the Regional Board of their novel approach, the aquifer from which the City draws its municipal water supply will remain contaminated for decades. He said that although Olin has left Morgan Hill, they will have left their perchlorate behind. He indicated that the Regional Water Quality Control Board will be meeting in September, therefore, staff will return to the Council in August recommending the Council

officially demand Olin be required to adhere to the State's non degradation policy and clean up the ground water basin.

### **CITY ATTORNEY REPORT**

City Attorney Kern indicated that she did not have a City Attorney's report to present this evening.

### **OTHER REPORTS**

### **PUBLIC COMMENT**

Mayor Kennedy opened the floor to public comment for items not appearing on this evening's agenda. No comments were offered.

## ***City Council Action***

### **CONSENT CALENDAR:**

Mayor Kennedy indicated that he would make a comment on Item 1, but that there was no need to pull the item from the Consent Calendar.

**Action:**        *On a motion by Council Member Carr and seconded by Council Member Tate, the City Council unanimously (5-0) **Approved** Consent Calendar Items 1-17 as follows:*

1.     **DONATION FROM HOSPIRA, INC.**

**Action:**   *1) **Accepted** the Donation; and 2) **Appropriated** the Donated Funds in the 2006-2007 Budget.*

Mayor Kennedy noted the City held a City Beautification day a while back and that Hospira was one of the major contributors, in terms of providing employees and personnel to help with the clean up. Not only did Hospira provide the personnel to assist with clean up, they decided to donate \$2,500 for future City Beautification clean up activities. He recognized and thanked Hospira for its generous gift of employees and services, as well as their financial resources to this effort.

2.     **CENTENNIAL RECREATION CENTER PROJECT – JUNE CONSTRUCTION PROGRESS REPORT**

**Action:**   ***Information** only.*

3.     **NEW LIBRARY PROJECT – JUNE CONSTRUCTION PROGRESS REPORT**

**Action:**   ***Information** only.*

4.     **FOURTH AMENDMENT TO AGREEMENT WITH THE LAW FIRM OF SHUTE, MIHALY, AND WEINBERGER, LLP**

**Action:**   ***Authorized** the City Manager to Execute a Fourth Amendment to Agreement with the Law Firm of Shute, Mihalay, and Weinberger, LLP.*



5. **SECOND AMENDMENT TO AGREEMENT WITH THE LAW FIRM OF JORGENSEN, SIEGEL, MCCLURE & FLEGEL, LLP**  
*Action: **Authorized** the City Manager to Execute a Second Agreement with the Law Firm of Jorgenson, Siegel, McClure & Flegel, LLP.*
6. **FIFTH AMENDMENT TO AGREEMENT WITH THE LAW FIRM OF JORGENSEN, SIEGEL, MCCLURE & FLEGEL, LLP**  
*Action: **Authorized** the City Manager to Execute a Fifth Amendment to Agreement with the Law Firm of Jorgenson, Siegel, McClure & Flegel, LLP.*
7. **ACCEPTANCE OF SUBDIVISION IMPROVEMENTS FOR TRACT 9680, COYOTE ESTATES PHASE 10**  
*Action: 1) **Adopted** Resolution No. 6030, Accepting the Subdivision Improvements Included in Tract 9680, Commonly Known as Coyote Estates Phase 10; and 2) **Directed** the City Clerk to File a Notice of Completion with the County Recorder's Office.*
8. **JUNE 6, 2006 SPECIAL MUNICIPAL ELECTION – CERTIFIED STATEMENT OF ELECTION RESULTS**  
*Action: **Adopted** Resolution No. 6031, Reciting the Facts of the Special Municipal Election of June 6, 2006.*
9. **WATER METER SOLE SOURCE PURCHASE**  
*Action: **Approved** Purchase Order of \$399,300 for Fiscal Year 2006-2007 to Sensus Metering Systems for the Annual Supply of Water Meters, Meter Parts, and MXUs (Radio Transmitters).*
10. **FINAL MAP APPROVAL VIENTO PHASE I (TRACT 9791)**  
*Action: 1) **Approved** the Final Map, Subdivision Improvement Agreement and Improvement plans 2) **Authorized** the City Manager to Sign the Subdivision Improvement Agreement on Behalf of the City; Subject to Review by the City Attorney; and 3) **Authorized** the Recordation of the Final Map and the Subdivision Improvement Agreement Following Recordation of the Development Improvement Agreement.*
11. **SPECIAL CITY COUNCIL MEETING MINUTES OF JUNE 28, 2006**  
*Action: **Approved** the Minutes as Submitted.*
12. **SPECIAL CITY COUNCIL MEETING MINUTES OF JUNE 29, 2006**  
*Action: **Approved** the Minutes as Submitted.*
13. **ADOPT ORDINANCE NO. 1781, NEW SERIES**  
*Action: **Waived** the Reading, and **Adopted** Ordinance No. 1781, New Series, and **Declared** That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING A ZONING AMENDMENT TO ESTABLISH AN R-1 7,000/RESIDENTIAL PLANNED DEVELOPMENT ON A 9.97 ACRE SITE LOCATED ON THE SOUTH SIDE OF EAST MAIN AVENUE APPROXIMATELY 400 FEET EAST OF THE CALLE MAZATAN/EAST MAIN INTERSECTION. (APN 726-16-028) (ZA-05-05: EAST MAIN-MARRAD).***

**14. ADOPT ORDINANCE NO. 1782, NEW SERIES**

***Action:*** Waived the Reading, and Adopted Ordinance No. 1782, New Series, and Declared That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING DEVELOPMENT AGREEMENT APPLICATION DA-05-04 FOR APPLICATION MP 04-19: EAST MAIN-THRUST (APN 726-16-028) (DA-05-04: E. Main-Marrad).**

**15. ADOPT ORDINANCE NO. 1783, NEW SERIES**

***Action:*** Waived the Reading, and Adopted Ordinance No. 1783, New Series, and Declared That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING ORDINANCE NO. 835, NEW SERIES, SECTION II A. 2, ELIMINATING THE EXCLUSION OF GROCERY SUPERMARKETS FROM THE LIST OF PERMITTED USES ALLOWED WITHIN THE PORTION OF THE MORGAN HILL BUSINESS PARK ZONED COMMERCIAL PLANNED UNIT DEVELOPMENT (PUD). (ZA-05-30: City of Morgan Hill-Cochrane Plaza).**

**16. ADOPT ORDINANCE NO. 1784, NEW SERIES**

***Action:*** Waived the Reading, and Adopted Ordinance No. 1784, New Series, and Declared That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO ORDINANCE NO. 1733, NEW SERIES, AMENDING THE DEVELOPMENT AGREEMENT FOR APPLICATION MP-02-06: EAST DUNNE-DEMPSEY (DELCO) ALLOWING FOR A THREE MONTH EXTENSION OF TIME FOR COMMENCEMENT OF CONSTRUCTION FOR 8 ALLOCATIONS RECEIVED IN THE 2003 RESIDENTIAL DEVELOPMENT CONTROL SYSTEM (RDCS) COMPETITION. (APNS 817-11-067 & 817-11-072) (DAA-04-09: E. Dunne-Delco).**

**17. ADOPT ORDINANCE NO. 1785, NEW SERIES**

***Action:*** Waived the Reading, and Adopted Ordinance No. 1785, New Series, and Declared That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO ORDINANCE NO. 1738, NEW SERIES, AMENDING THE DEVELOPMENT AGREEMENT FOR APPLICATION MP-02-22 AND MC-04-13: BARRETT-ODISHOO ALLOWING FOR A FIVE MONTH EXTENSION OF TIME FOR OBTAINING BUILDING PERMITS AND A FOUR MONTH EXTENSION TO COMMENCEMENT OF CONSTRUCTION OF 5 ALLOCATIONS RECEIVED IN THE 2003 RESIDENTIAL DEVELOPMENT CONTROL SYSTEM (RDCS) COMPETITION. (APN 817-33-003) (DAA-04-05: Barrett-Odishoo).**

## ***Redevelopment Agency Action***

### **CONSENT CALENDAR:**

**Action:**        *On a motion by Agency Member Carr and seconded by Agency Member Tate, the Agency Board unanimously (5-0) **Approved** Consent Calendar Item 18 as follows:*

**18.    AGREEMENT FOR OUTSIDE LEGAL COUNSEL, RICHARDS, WATSON & GERSHON**

**Action:** ***Authorized** the Executive Director to Execute Consultant Agreement for Legal Services in Fiscal Year 2006-2007 with Richards, Watson & Gershon in the Amount of \$80,000; Subject to Review and Approval by Agency Counsel.*

## ***City Council and Redevelopment Agency Action***

### **CONSENT CALENDAR:**

**Action:**        *On a motion by Council/Agency Member Carr and seconded by Council/Agency Member Tate, the City Council/Agency Board unanimously (5-0) **Approved** Consent Calendar Item 19 as follows:*

**19.    JOINT SPECIAL AND REGULAR CITY COUNCIL AND REGULAR REDEVELOPMENT AGENCY MEETING MINUTES OF JUNE 28, 2006**

**Action:** ***Approved** the Minutes as Submitted.*

## ***City Council Action***

### **PUBLIC HEARINGS:**

**20.    ZONING AMENDMENT, ZA-05-09/DEVELOPMENT AGREEMENT, DA-05-08: CHURCH-ALCINI – Ordinance Nos. 1786 and 1787, New Series**

Planning Manager Rowe presented the staff report on the request to approve a precise development plan, establishing a PUD district on the entire site for a mixed commercial/residential project, and the approval of a development agreement that would memorialize commitments the project proponent made through the Measure P/C process. He clarified that there are two applications: a 14-unit residential project and a vertical mixed use project consisting of an 11,200 square foot ground floor retail and 30-residential units above the commercial portion of the building. The other portion of the site consists of 44-units. By combining the two projects, it allows for better circulation, creates a larger more central open space area, and will serve as the storm detention for both projects. It is felt that this is a superior layout from the previous application. He clarified that the PUD does not cover the parcel located at the corner of Church and Biceglia at this time. He noted that 2 residential units exist on site and that the owner has no intentions of changing the use of the site at this time. He said that it could be likely the parcel may be incorporated into this project at a later date.

Mayor Kennedy opened the public hearing. No comments being offered, the public hearing was closed.

**Action:**        *On a motion by Council Member Tate, and seconded to Council Member Carr, the City Council unanimously (5-0) **Approved** the Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program.*

**Action:**        *On a motion by Council Member Tate, and seconded to Council Member Carr, the City Council unanimously (5-0) **Waived** the Reading in Full of the Zoning Amendment Ordinance No.1786, New Series.*

**Action:**        *On a motion by Council Member Tate, and seconded to Council Member Carr, the City Council unanimously (5-0) **Introduced** Ordinance No. 1786, New Series, by Title Only as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING A ZONING AMENDMENT TO ESTABLISH A PLANNED UNIT DEVELOPMENT ON A 3.5 ACRE SITE LOCATED ON THE NORTHEAST CORNER OF THE INTERSECTION OF MONTEREY ROAD AND BISCEGLIA AVENUE (APNs 817-01-061, 062, 063 & 064) (ZA-05-09: Church-Alcini)** by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.*

**Action:**        *On a motion by Council Member Tate, and seconded to Council Member Carr, the City Council unanimously (5-0) **Waived** the Reading in Full of Development Agreement Ordinance No. 1787, New Series.*

**Action:**        *On a motion by Council Member Tate, and seconded to Council Member Sellers, the City Council unanimously (5-0) **Introduced** Ordinance No. 1787, New Series, by Title Only as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING DEVELOPMENT AGREEMENT APPLICATION DA-05-08 FOR APPLICATION MC 04-15: CHURCH - ALCINI (APN 817-01-061 & 064) (ZA-05-09: CHURCH-ALCINI)** by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.*

## **PUBLIC HEARINGS:**

### **21.    ZONING AMENDMENT AND SITE REVIEW APPLICATIONS, ZAA-03-03/SR-06-03: FOOTHILL-THE INSTITUTE – Ordinance No. 1788 and Resolution No. 6032**

Senior Planner Marlatt presented the staff report, indicating that on July 2004 the Council certified an environmental impact report (EIR) to allow for the continued operation of a golf course on the property as well as the demolition of the former Flying Lady Restaurant. Requested is the replacement with a mathematics conference center for the American Institute of Mathematics (AIM). He stated that in conjunction with the EIR adoption, there was a Planned Unit Development (PUD) ordinance approved that specified the size of the Mathematics Institute as being 59,000 square feet, the size of the existing structure on site today. In conjunction with the EIR certification, there was a mitigation and monitoring reporting plan. Since that time, there has been on going implementation. He informed the Council that a status report is included in the staff report.

Senior Planner Marlatt informed the Council that the request before it this evening is for the approval of a site review permit as well as a PUD amendment that would allow the structure to increase to 167,500 square feet with a 34,000 square foot underground parking garage. He stated that parking would be enlarged to allow 261 on site parking spaces. He informed the Council the applicant is trying to replicate the Alhambra, a Moorish castle found in Granada, Spain. He stated that the applicant has further defined the uses for the site. The proposed use would allow for daily presence of mathematicians with after school programs for high school and middle school students. Tutoring and research would also be conducted as well as four larger events to be held each year with approximately 100-145 attendees. Staffing would increase to accommodate the larger use.

Senior Planner Marlatt clarified that when changes occur to a project, following certification of an EIR, the California Environmental Quality Act (CEQA) requires these changes to be reviewed. He stated that there are a number of documents that can be prepared, depending on the circumstances of the situation. In this case, it was determined that an EIR addendum to the original EIR was a preferred document. He indicated that the EIR addendum was prepared by PMC Consultants, the consultants overseeing the mitigation, monitoring and reporting plan. He indicated that seven areas were examined for the larger structure. He stated that the conclusion reached was that the impacts and the mitigation measures from the previous EIR are adequate/still apply to address the proposed changes associated with this project.

Senior Planner Marlatt indicated that one area explored in greater detail addressed the visual impacts. He presented information that demonstrates the buildings are not sited on a ridgeline, or a focal point from any public viewing area. He addressed the recommendation by staff and the Planning Commission to waive the undergrounding of the utilities requirement as the area is located in a rural area of the City. On May 8, 2006, the ARB unanimously recommended approval of the site review permit. On June 27, the Planning Commission, by a vote of 4-2, recommends Council approval of the zoning amendment as well as the underground utility waiver.

Senior Planner Marlatt stated that the use was previously found to be consistent with the General Plan and the increase in the building size would not result in any additional environmental impacts. Therefore, staff recommends the Council certify the EIR addendum, introduce the ordinance amending the PUD, and adopt the resolution approving the site review application. He informed the Council that he and Tammy Seal, PMC Consultants, were available to answer any questions it may have.

Mayor Kennedy noted that it was indicated the Planning Commission voted 4-2 to recommend approval. He inquired as to the reasons/concerns the two Planning Commissioners had for not recommending approval.

Senior Planner Marlatt indicated that one of the no votes had to do with the underground utility waiver. The Commissioner felt that an in lieu fee should be paid if the City is not requiring the undergrounding of utilities. He stated that the second no vote had to do with the size of the building. The Planning Commissioner expressed concern that the size of the building was not commensurate with the increased use that was being requested by the applicant.

Mayor Pro Tempore Grzan inquired as to the cost associated with underground utilities.

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Senior Planner Marlatt responded that the in lieu fee option would require the payment of approximately \$100 per linear foot. He noted that there is approximately 4,600 linear feet of frontage on Foothill Avenue. However, he was not sure as to the actual cost for undergrounding utilities.

City Manager Tewes said that staff is recommending the City take advantage of a provision that exists in the Municipal Code that allows for these kinds of waivers. He stated that typically, when the City requires the payment of in lieu fees, the City expects development to occur on both sides of the street. Therefore, the in lieu fee would pay for half the cost for undergrounding utilities. He noted this area is isolated and that it is not likely to ever be included in the city limits based upon the City's urban limit line policies. Therefore, there are no other urban uses proposed on any of the sides of this project that would help pay for the undergrounding.

Council Member Sellers stated that in reading through the staff report, there are County versus City issues. He noted the site has always been an appendage to the City. He acknowledged that City development would not occur in this area, and that the City is limited in its jurisdiction.

Senior Planner Marlatt said that discussed at the Planning Commission meeting was the fact that if you look at the General Plan, there is not a proposal to expand, widen or improve a portion of Foothill Avenue, below Tennant Avenue.

Mayor Kennedy opened the public hearing.

Scott Stotler, Stotler Design Group, indicated that he has been involved with this project from its inception approximately five years, including a trip to Spain to determine the type of architecture to choose for this facility. He said that in May 2004, when the PUD was approved, it was raised by Planning Manager Rowe that the approval for the proposed building was based on the old building; the Flying Lady Restaurant, and not the unidentified size of the proposed building as specific information was not available at that time. He said that the difference in height and square footage is the reason for the request to amend the PUD this evening. He stated that the previous PUD was approved with the intention that they would return to the Council with an amendment to the PUD to identify the square footage for the building. He presented a 3-D animation of what the proposed building would look like. He stated the building was designed after the Alhambra palace building. He stated that this facility could very likely become a world renowned facility for mathematicians. Therefore, it was felt that the architecture needed to meet this integrity. After visiting the Alhambra palace, they wanted to duplicate six elements, follow the integrity of the building; capturing the authenticity of the structure.

Brian Conrey, Director of AIM, informed the Council that AIM got started 12 years ago; an idea of John Fry and Steve Sorenson, and has been successful during this time period. He indicated that Fry's has been a generous sponsor in supporting AIM, has offered to build the facility, and provide for a bargain lease. He stated that it is AIM's mission to focus on collaborative research with the idea of making it a team sport, while getting groups of individuals to work together. It is the hope to develop young mathematicians who want to preserve math history through an incredible library to be a part of the facility. AIM is also interested in public outreach and communicating mathematics to the public; getting the public aware and interested in mathematics. He addressed the successes of AIM (e.g., solved 3 major problems; involved in international conferences; has held 54 focused workshops; grants 5-year fellowships to the best new PhD mathematicians in the country every year; published 199 papers; received 25 grants from the National Science Foundation totaling \$9.8 million, etc.) He informed the

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Council that AIM started the Math Count and Math Mardi Gras programs in Morgan Hill. He indicated that AIM is currently operating from a warehouse in Palo Alto, near Fry's Electronics. He said that AIM is looking forward to moving from the math warehouse to the math castle. He felt that AIM will be a great resource for Morgan Hill and that Morgan Hill will be a great home for AIM.

Brent Bear indicated that his family has been ranching in California since 1874 and that the family has been on this cattle ranch for 45-years. The family's 158 acre land borders the Math Institute on the northeast corner. He stated that he is excited about this project as it will be a great educational and cultural asset to the community of Morgan Hill and the entire region. He felt that the Math Institute will attract some of the greatest minds of today and the future; benefiting mankind. He indicated that he and his wife support the project before the Council.

Rocke Garcia stated that he and his wife whole heartedly support this project. He felt the project comparable to what Warren Buffet, Bill Gates, and Andrew Carnegie did in their lifetime. He requested Council unanimous support of the project.

Lori Mains, coordinator of the AIMS Morgan Hill community program, addressed the Math Counts program that involved 90 students last year, and the Morgan Hill Math Mardi Gras implemented the first time this year. She indicated that the Math Mardi Gras was a rousing success held at the Community Center with over 350 individuals in attendance. It is her hope these programs will be continued for many years.

David Eisenbud, Director of the Medical Sciences Research Institute (MSRI) in Berkeley, stated that he was on the original MSRI panel that approved the formation of the first institute approximately 25-years ago. He indicated that he has visited many institutes around the world, and that in recent years, AIM has joined the ranks of a small and select group of research institutes that have had a major impact around the world. He indicated that the AIM Palo Alto center is known widely by mathematicians from around the world. It was his belief that the proposed development will attract attention from the scientific community throughout the world. He informed the Council that MSRI and AIM have already collaborated on pure science with the education of K-12 math teachers. He looks forward to future collaborations of this kind and that it is his hope that they take place in this beautiful area/facility.

Monica Vazirani, a professor of mathematics at UC Davis, indicated that AIM supports minorities, women, and junior mathematicians; individuals starting out in their careers. She said that AIM makes an effort to ensure that younger mathematicians are participating at a high level in the workshops and are introduced to senior mathematicians. She felt that being a part of an AIM math workshop can make an impact to an individual's career. She stated that participants get to meet world class mathematicians from around the world. She said that any support the Council can give toward AIM would make a tremendous impact on mathematics.

Kevin McCurley informed the Council that he used to work at the IBM research center in Almaden Valley and recently switched jobs; working at Google in their research department. He stated that he has traveled to many of the mathematics institutes around the world early in his career, and that this had a tremendous influence in his development as a mathematician; attributed to interactions with senior mathematicians. These interactions also made a big impact on him, scientifically. He noted that a few miles of Silicon Valley have become an economic power house in the United States due, in large part, to

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mathematics and the contributions it makes. He felt that support from communities in this regard would be helpful as it would bring benefits to a community(ies). He requested Council approval.

Dale Shipley did not believe anyone could rationally oppose locating the institute in Morgan Hill. It was his belief this would be the finest math research institute in the world. The only issue he can see would relate to the size of the building; noting that the Alhambra building is breathtaking. He requested Council support.

Keith Devlin informed the Council that he runs a multi disciplinary research center at Stanford University and collaborates with approximately 25 major companies in the valley and the world. He stated that he has a lifelong commitment to outreach activities. When AIM was created 12 years ago, he joined the original advisory board and was the chair of this advisory board as a volunteer. He said that approval of the applications would accommodate world class mathematicians working in a facility with interactions with members of the local community. He indicated that AIM conducts considerable outreach activities and provides opportunities such that youth in the community can interact on a one on one basis with some of the world's best academics. He stated his support of AIM and requested Council support.

Bernd Sturmfels, professor of mathematics and computer science at U.C. Berkeley, stated that he has been involved with AIM by co-organizing two of their workshops and was the advisor of one of their five year fellows. Most recently, he has been interested in applications of mathematics in molecular biology and bio medical research. He felt there would be a lot of excitement about having the AIM facility in Morgan Hill and having an impact in bio medical research.

Mike Cox informed the Council that he met Brian and Lori Conrey when they spoke at a Leadership Morgan Hill barbeque last year. He then got involved in making a buzzard for their Math Counts competition, and was convinced to attend the Math Mardi Gras. He felt that a lot more of these activities are needed.

Mark Reuter, former high school instructor and current business owner in Morgan Hill, stated that after hearing the comments presented this evening, his support has further grown for this world class facility. He was pleased to read in the Morgan Hill Times and the Gilroy Dispatch that IBM had sponsored a math and science camp for young high school students. It is his hope that AIM will be able to help local teachers with their math skill deliveries to all young students.

Sally Koutsoliotas, media coordinator for AIM, addressed the comprehensive library that is to be constructed; indicating that the working collection is at approximately 12,000 books. This is approximately 10% of all available books. It is proposed to build a special/rare works collection with a goal to preserve all mathematical works for the future. She informed the Council that AIM has approximately 3,000 of the most monumental mathematical works. She addressed a reprint collection which is a printed copy of a mathematician's publication. She stated that AIM is building a unique library collection, and that it will become one of the foremost mathematical library facilities in the world; becoming a wonderful research facility for mathematicians and a true treasure.

Jennifer Holmstrom, a 12-year Morgan Hill resident, informed the Council that she has two sons and that the oldest son has been a part of the Math Counts program; an excellent experience for her son. She stated that she is looking forward to her son participating in other programs in the future. She indicated



that she attended the Math Mardi Gras and that there were a lot of kids in attendance who were excited about math. She stated her support for AIM and requested Council support of this project.

Peter Mains, a 9<sup>th</sup> grader, indicated that he has been involved in the AIM's Math Counts program the past four years. He stated that he has been able to explore new math experiences attributed to AIM. He was a part of the Math Counts teen effort with three of the teams placing in the top 1% in the nation. He stated that he enjoys sharing his passion with sixth graders and stated his support of the AIM facility in Morgan Hill.

Wei Kang indicated that he is a 12+ year Morgan Hill resident and a professor of mathematics at the U.S. Naval Post Graduate School, and a former professor at several other universities. He said that all the universities he has taught at have special programs designed to help the local education system, especially high school students. This gives the local educational system a special learning opportunity and gives them an advantage. He did not believe the youth in Morgan Hill have the same advantages and opportunities other youths have. He felt that AIM would be a great advantage to Morgan Hill as it will bring a unique valuable element to the local culture. He felt this element will help the local educational system and will benefit future generations. He requested Council approval of the proposal this evening.

Yakov Eliashberg, Chairman of the Mathematics Department at Stanford University, stated his support of AIM's proposal. He stated that over the past years, there has been an increase in the role that mathematics plays in the world and that there is renewed interest in math. He indicated that the number of mathematics majors has quadrupled at Stanford in the past 4-5 years. Despite being young, AIM has contributed significantly to mathematical development and that Stanford has benefited because of the close proximity of AIM. Having AIM nearby was an attraction for mathematic students. He indicated that AIM can host different types of conferences with focus on breakthroughs on important mathematical problems. He felt it was important to have this type of facility in order to bring mathematicians to one place and be able to work 24-hours a day as there are very few places in the world that can accommodate world class mathematicians gathering in one location.

Anne Shipley indicated that she has been a resident of Morgan Hill since 1991. She felt the future of the world relies on math. She did not believe our country is doing well in math, and that AIM would give Morgan Hill, the country and the world a gift. She requested Council unanimous support.

George Chiala, neighbor of this project, stated his family's strong support of the Math Institute, this project and its principles.

K. Soundararajan, professor of mathematics at Stanford University, stated that he will be taking the lead project manager position with AIM for the next 2-years. He stated that he recently moved to Stanford from Michigan University because of its proximity to AIM. Although AIM will not be located in Palo Alto, it would be great to have AIM in Morgan Hill. He stated that he has been associated with AIM for a long time and that he was the first recipient of the AIM 5-year fellowship.

Janet Conrey, an 8-year Morgan Hill resident, indicated that she teaches computer software at Gavilan College as well as teaching math to 7 and 8 graders at St. Mary's School in Gilroy. She indicated that AIM conducts focus workshops and brings in mathematics and scientists from all around the world to collaborate together and share ideas. She felt it is an important time for middle school students to keep interested in the understanding of math as this is the time students transition into abstract math. AIM and

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MSRI will be sponsoring a workshop for math teachers in August. She indicated that middle school teachers from the Bay area can get together for a week and learn new problem solving skills they can take back to students. Further, AIM sponsors these same teachers to get together one evening a month for an entire year to collaborate and share teaching experiences in the hope of improving the education of young students. Therefore, it was her belief that AIM contributes to research, the community, students, and the education/improvement of teachers.

Ken Ribert, a mathematician at U.C. Berkeley, stated that throughout his career, he has been involved in various capacities as a member of various institutes. He stated that this is his first visit to Morgan Hill and that it is a beautiful community. He has the expectation that he would be returning frequently to interact with AIM. He attended a week long workshop at AIM in February and felt that it was a wonderful workshop. The 32 participants were able to exchange ideas and that it was his belief the subject was furthered noticeably.

Daniel Goldston, math professor at San Jose State University, stated that he has had some success in math recently when he and his co-authors proved results on primes. The success was largely attributed to AIM and other math institutes.

Ravi Vakil, professor of mathematics at Stanford University, stated his support of AIM and math institutes as they play an important role around the world, and attract the best minds.

Olga Holtz, assistant professor, mathematics department at U.C. Berkeley, concurred with many of the points expressed by her colleagues. She felt that AIM will be a great and exciting opportunity, especially for younger mathematicians.

Steve G. Krantz, Deputy Director of AIM, indicated that AIM is one of the most prominent/important institutions of higher learning in the world. It is one of four mathematics conference centers in the world and the only one located in the United States. He felt that AIM will set a standard of excellence in scholarships and will be a part of the learning life for students at all levels. He noted that mathematics has become a vital part of modern society and plays a role in gene projects, brain research, development of the internet, and in many of the diverse aspects in technological development. He stated that AIM workshops explore all parts and manifestations of modern mathematics and that scholars from around the world will come to AIM to further contribute to mathematical activities. He felt that AIM's world class mathematics library will make it a focal point and an important resource for research activities across the discipline. With this institute, Morgan Hill will be host to one of the greatest math institutes in the world and will be the home of the best math library that has ever been assembled. He indicated that AIM enjoys generous funding from John Fry, Fry's Electronics, and from the National Science Foundation. AIM has won 25 research grants totaling \$9.8 million over the course of its 12 year existence. AIM sponsors a 5 year fellowship, a post doctoral position for developing young mathematicians and holds hot topic workshops. AIM sponsors workshops for high school teachers to aid in their professional development, fund gatherings to study current applications of mathematics, and fosters collaborations and new investigations among scientists. He stated that AIM will also be a contributing member to the Morgan Hill community by sponsoring Math Counts, Mardi Gras Math Fair, Math Circles Group, public lectures, and will contribute to the cultural life of Morgan Hill.

David Farmer concurred with the comments expressed by the previous speakers.

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Ralph Cohen, professor of mathematics at Stanford University, stated that he has had several tremendous collaborations with AIM. He indicated that a couple of months ago, the Stanford Mathematics Department, in collaboration with AIM, was awarded a large grant from the National Science Foundation for a three year focused research program. This will be a collaboration in the funding of basic science between a university, government and a privately funded research institute. He informed the Council that the word is out in the mathematics community about the wonderful countryside facility that will be a part of AIM in Morgan Hill, and that it is eagerly being anticipated.

Dan-Virgil Voiculescu, member of the U.C. Berkeley math department, stated his support of AIM as it is a first rate scientific institution and is a great facility in the development of new mathematics emerging at the beginning of the new millennium. He stated that the mathematics community hopes that AIM will be approved by the Council.

Peter Teichner, professor at U.C. Berkeley, informed the Council that he is organizing a workshop at another institute in two weeks. However, he was advised that he could not use the main facility because they are expanding their library. Therefore, he is pleased to hear that AIM is planning for a large library at this time because math books are needed. He stated that one of the ways to compete for great mathematicians is to have an excellent library.

Ruchira Datta, software engineer at Google, indicating that she works in Google's book search. She stated that Google is interested in the preservation of old books and therefore she is excited to hear about AIM's library in Morgan Hill. Prior to joining Google, she was a lecturer in math at U.C. Davis and received her PhD in math at U.C. Berkeley. She stated that she benefited during her graduate work from the proximity of the MSRI facility. She informed the Council that AIM sponsored a reception for bay area women in mathematics, an opportunity to interact with other women in mathematics. She indicated that last year, she spent a day collaborating with a Swedish mathematician, hosted by AIM. She requested Council approval of the facility.

Rich Gamboa, adjacent property owner, spoke in support of the project in general and the efforts of Brian Conrey. He stated that he is a father of a gifted math student. He volunteered and worked at the Math Mardi Gras. He stated that he was astonished to see how wonderful the initial annual event was and that he hopes there will be many more like this in the future. However, he has unfinished business and concerns regarding the project left over from the golf course application. He previously was before the Council during the review of the EIR discussions about the golf course. He expressed concern with the installation of a thick wall of trees that has blocked the hillside view. He stated his support of AIM in Morgan Hill, but felt homeowners have a right to the views that pre existed before development. He stated that the neighbors want to share the view, and help make the facility a gem in the community. However, it needs to be visible when you drive down Foothill Avenue.

No further comments being offered, the public hearing was closed.

Mayor Pro Tempore Grzan inquired how AIM would integrate its efforts with the community and outreach to local schools and colleges in order to provide synergy between the institute and the City.

Mr. Conrey said that the first outreach was geared toward middle school students. It is felt that this is the most important age to get a hold of students and capture their interest. He said that as the children get older, it is the intent to begin programs in the high schools. He indicated that AIM has the intention of

starting a math circle program for high school students this year with the hope that these students will impact the elementary schools with programs not yet designed. It is the goal of AIM to have a broad reaching effort in the K-12 grade levels; assisting with what the schools do to enhance mathematics. AIM would also like to be involved with the junior colleges and colleges. He indicated that a teacher's circle workshop will commence this summer. He stated that programs commenced four years ago, and are gradually broadening. He said that AIM will make contact with local schools and offer the use of the facility. AIM is also open to working with schools, but does not want to interfere with the schools.

Council Member Sellers said that when this project first came to the City's attention, it encountered some opposition. He noted the project has gone through quite a process and that it has been a difficult and enlightening process, in some ways. He stated that he was familiar with the restaurant building and what existed on site. In its time, the restaurant gave some minor recognition to the City of Morgan Hill. He was pleased to hear there would be a wholesale change in the architecture from what existed before. He felt the building's architecture will make it an amazing facility and will be a tremendous asset to the City of Morgan Hill. He indicated that he completed his graduate work in public policy. He stated that one of the emerging areas developing in public policy is collaboration. He said that it is exciting to see that the math world is starting to recognize the value of collaboration as well. He stated that it is exciting to host a facility that will foster collaboration. He noted that it has been outlined in detail how AIM is already interacting with the community. He stated that he will encourage his children and students in the schools to participate with AIM. He said that staff and the Planning Commission have reviewed this project in great detail. The Council needs to step up as individual representatives of the community and state that this is a once in a lifetime opportunity. He recommended the City partner and do what it can to let the immediate community and the greater world know that a world class/renowned mathematical institute is coming to the community. He stated that he will be voting in support of the project and encouraged his colleagues to do the same.

Council Member Tate stated that he is a graduate from U.C. Berkeley with a degree in mathematics, and that he has been excited about this opportunity for a long time. He said that the input provided this evening was great as speakers described what kind of place Morgan Hill can be and deserves to be by hosting this type of institution. He stated his support of this project as it would be a great addition to the community.

Council Member Carr noted that anyone hearing the testimony this evening would be hard pressed not to support AIM, their goals, and/or bring the institute to Morgan Hill. However, this is not the question before the Council. The question before the Council this evening is about a building and land use; not about the programming within the building. The discussion this evening is about an addendum to an already certified EIR and amending the PUD that overlays the site. He noted that there was a comment expressed this evening pertaining to the addendum to the EIR regarding the trees and the blockage of the view shed of the hillsides from the trees. He inquired how this concern was addressed in the original EIR and how it may affect the addendum itself.

Tammy Seal, PMC Consultants, stated that the trees were not evaluated in the addendum because it is not a part of the proposed change to the project.

Director of Community Development Molloy Previsich informed the Council that the prior EIR did not address the trees as an impact. However, at the time the City approved the PUD zoning for the golf course that would accommodate this facility, it added a condition for the approval that the row of trees

along Foothill Avenue would need to be represented on the site development and grading plan to be submitted. This is where the row of trees will be represented. She stated that the site and grading plan will need to go through the City's approval process. She clarified that the trees are associated with the golf course approval and not with this building's approval. Therefore, there is still a process ahead of the City as to whether the row of trees should remain the same, be modified, and/or be removed. She stated that this is a decision that will be made in the future at the time of the evaluation of the site and grading plan.

Mayor Pro Tempore Grzan referred to page 8 of the status report regarding the EIR relating to the golf course; noting it talks about the row of trees. This portion of the report states the project proponent must show the landscaping on a detailed landscape plan or an SDGP. The City will then determine whether the row of trees, along Foothill Avenue, are to be removed, trimmed or thinned; or whether they are appropriate and can remain. He noted the landscape detail will return to the City at some point in the future. Therefore, the row of trees is a condition the City has to address along with a number of other conditions that are a part of the golf course, and not a part of the building.

Council Member Carr indicated that the concern expressed this evening was attributed to unfinished business. He felt there is unfinished business when it comes to some of the monitoring of the mitigation program. The concern does not apply to the building before the Council this evening. He noted that one of the issues cities face across the state of California is revenue issue(s). He said that one of the ways that you can look at revenue issues are ways of collecting sales tax dollars when it comes to construction related items. He said the State Board of Equalization provides an opportunity for large building programs that have significant contracts to establish a point of sale where the actual construction site is located. Therefore, the point of sale would be in Morgan Hill and the City may be able to capture some sales tax dollars. He requested the project proponent(s) work with the City on establishing such a program in order to capture sales tax revenues that would otherwise be lost to other states.

Steve Sorensen indicated that City Manager Tewes provided him with a copy of the Uniform Local Sales & Use Tax Regulation 1806. As it is a legal document, he would need to consult with a tax attorney prior to providing a binding response. He stated that it is the intention of AIM to contribute not only to the intellectual capital of the City, but also to the economic capital. He said that AIM will do everything it can, pending a discussion with an attorney, to cooperate with the City in order to generate as much sales tax revenue for the City as possible through this project.

In response to Mayor Pro Tempore Grzan's question, Senior Planner Marlatt said that the EIR established for the initial 59,000 square foot facility still applies to the much larger facility (167,500 square foot building with a 34,000 square foot underground garage); including the standards and requirements listed.

Council Member Sellers stated that the staff report presented was exhaustive and complete. He noted the Fiscal Impact contained in the staff report suggests there will be fiscal impacts associated with the project. It is expected that individuals attending periodic conferences and workshops will patronize local businesses and visit services establishments; thereby generating additional general fund revenues. He felt it important to recognize the project will have a positive significant impact on the economy of the City. This will be seen in the sale of homes once it is found that there is a world class institute affiliated with the community and the types of businesses that may decide to locate in Morgan Hill. The City should use this facility as a tool to expand economic development and expand on what is being built.

Mayor Pro Tempore Grzan indicated that there is no quantifiable study indicating the amount of economic returns the City will receive. It has been his experience that there is a lot of conjecture on what it may be. He stated that he was not basing his decision this evening on any economic returns the AIM facility may have on the community. His approval on this project would be based upon the value of the institute to the City of Morgan Hill and the value of the institute to the community.

Council Member Sellers recommended the City encourage opportunities in letting the world know that Morgan Hill will be a host to a world class research facility.

Mayor Kennedy indicated that he previously worked in facilities engineering at IBM, had a lot to do with the IBM Almaden Research Center, and is working with several scientists as well as with IBM's construction vision on a research facility. He stated there was a lot of opposition to the IBM Research Center from the Almaden Valley neighbors about the visibility of the Research Center. Therefore, the Research Center was hidden behind berms and hills and was painted with colors that blended it with the hillside. He felt the City has an opportunity for an incredible majestic building to be visible to the community. Yet, if the trees continue as they are today, the building will not be visible. He felt the community would be missing an opportunity to be able to view the beautiful facility as well as those patronizing the center. He acknowledged that privacy is an issue, but felt that the distances involved would be adequate to create sufficient privacy. He inquired as to the plans for visibility of the facility from the surrounding community.

Mr. Stotler pointed out that the elevation of the building is at a high elevation. He said that when one drives down Foothill, there will be a small percentage where the building will not be visible. As you go further back, you will be able to see the building from the freeway. Regarding the trees, he would like to have the opportunity to work with staff at the time the landscape plans are processed at a staff level. It was his belief the building would be seen from the majority of Morgan Hill, however, it would not be as visible along Foothill Avenue.

Mayor Kennedy made a strong request that something be done with the trees to eliminate the appearance of a wall of vegetation/trees. He felt the wall of trees detracts from the overall appearance of the facility.

Mr. Stotler said that as you move further away from the site, you will see the base of the building as the elevation of the building is taller than the top of the trees.

Mayor Kennedy felt this was a wonderful opportunity for Morgan Hill. He noted that many of the speakers mentioned what a wonderful and awesome facility it will be for Morgan Hill, and that it would become one of the leading mathematic institutes in the world. He stated that he was honored that the Math Institute has chosen to build the facility in Morgan Hill and to build it in such a grand style/historical significance in the Alhambra building. He stated his support of the project.

**Action:**      *On a motion by Council Member Sellers, and seconded to Council Member Tate, the City Council unanimously (5-0) **Adopted** the Environmental Impact Report (EIR) Addendum.*

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**Action:**      *On a motion by Council Member Sellers, and seconded to Council Member Tate, the City Council unanimously (5-0) **Waived** the First and Second Reading of Ordinance No. 1788, New Series .*

**Action:**      *On a motion by Council Member Sellers, and seconded to Council Member Tate, the City Council unanimously (5-0) **Introduced** Ordinance No. 1788, New Series, Amending a Planned Unit Development Zoning and Precise Development Plan for the Subject Parcels by Title Only, as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO A PRECISE DEVELOPMENT PLAN FOR AN EXISTING PLANNED UNIT DEVELOPMENT (PUD) ORDINANCE (ORDINANCE NO. 1687) TO ALLOW AN APPROXIMATELY 167,500 SQUARE FOOT ABOVE GROUND MATHEMATICS CONFERENCE CENTER WITH A 34,385 SQUARE FOOT UNDERGROUND GARAGE AND A NEW 185 SPACE SURFACE PARKING LOT TO REPLACE AN EXISTING 121 SPACE PARKING LOT ON AN APPROXIMATELY 54 ACRE SITE LOCATED AT 14830 FOOTHILL AVENUE. (APNS 825-30-007 AND 825-29-002) (ZAA 03-03: Foothill – The Institute) by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.***

**Action:**      *On a motion by Mayor Kennedy, and seconded to Council Member Tate, the City Council unanimously (5-0) **Adopted** Resolution No. 6032, Approving a Site Review Permit and an Exception to the Underground Utility Requirement.*

**22.      GENERAL PLAN AMENDMENT, GPA-01-09: CITY OF MORGAN HILL-ADOPTION OF HOUSING ELEMENT UPDATE – Resolution No. 6033**

Contract Planner Bischoff presented the staff report, indicating that the Housing Element is one of the mandated elements in the City's General Plan. He said that State law is specific with respect to the contents of the Housing Element than any other element of the General Plan. The Housing Element is the only element in the General Plan that the State is authorized to certify as being in compliance with state law. The State also specifies the time period for which a Housing Element should be prepared and for Morgan Hill, it is the period of 1999-2006. He informed the Council that the next update to the Housing Element will be for the period of 2009-2014 and that this update will begin in approximately two years. In order to comply with state law with respect to the 1999-2006 Housing Element, the City began an update process in 2001. The update and 9-member advisory committee was chaired by Council Member Carr. This committee completed a draft of the Housing Element in late 2001. The Council conducted 2 workshops to review the work of the Committee to date. He indicated that this Housing Element was sent to the State for review. The State provided comments to the City and requested minor changes to the policies, and changes to the substantiating data with respect to the Housing Element. He informed the Council the State liked the City's Housing Element, but could not certify it because Measure C did not allow the City to meet its fair share of housing allocation of 2,484 units assigned to the City by ABAG. He noted that in 2004, Measure C passed and that with its passage, the number of units the City could allow, on an annual basis, bumped the units to 250 units/per year; allowing the City to provide additional units. This number now enables the City to meet the fair share housing allocation assigned by ABAG.

Contract Planner Bischoff informed the Council that staff has drafted amendments to the Housing Element that addressed the comments received by the State. Staff proposes some changes to the Housing Element that were necessitated by changes in State law since the Housing Element was first drafted. Staff has sent these changes to the State for a second informal review; indicating that the State has provided some additional comments. The comments deal with documentation/information. There were not a lot of comments provided by the State with respect to policy directions. He informed the Council that there were two documents included in the Council's packet: 1) the Housing Element, and 2) the Housing Needs Assessment. He clarified the goals and policies before the Council are for the most part, the same as those contained in the current General Plan; indicating that fundamentally, the Housing Element remains the same. He indicated that the Housing Element contains three main goals: 1) provision of new housing; 2) preservation of the existing housing stock; and 3) housing needs for special groups such as large families, single parents, disabled persons, and seniors. He said that the policies and actions italicized are new additions to the existing element. He stated that there were a few actions deleted as well as actions that have been achieved, out of date, or found not to be affective. He informed the Council that the Housing Element before it was reviewed by the Planning Commission on June 27 and July 11, and that the Planning Commission recommends Council approval. The Resolution before the Council would allow for the approval of the Housing Element and authorize staff to make additional changes, as found necessary, to the Housing Needs Assessment in order to satisfy State requirements. He clarified that the Resolution does not authorize the City to make any changes to policy(ies).

Council Member Sellers noted that reference was made regarding affordable housing. He referred to Policy 1g, page 379 of the agenda packet. The first action of this policy requires that 40% of all new housing be set aside for low, medium and moderate income households. It was his recollection the Council wanted to move toward median income households through Measure C in a variety of ways such as working with for profit and non profit developers. He inquired whether there were specific references to the percentage of housing, how it was broken out and to what degree the City would emphasize one over the other. He noted the City has been able to provide a much higher percentage of affordable housing through Measure C, the Residential Development Control System (RDCS). However, a lot of this housing has been at one end of the spectrum and does not come close to the median.

Contract Planner Bischoff indicated that there is an action included that states that at the conclusion of each RDCS competition, the Planning Commission and the Council should look at the results of the competition; including the sufficiency of the level of affordable housing; making adjustments, as necessary.

Mayor Kennedy opened the public hearing. No comments being offered, the public hearing was closed.

Council Member Tate noted that the Council has been dealing with the Housing Element for a number of years, especially in the work of Council Member Carr. He felt that this is a perfunctory approval at this time. He felt a great job was done and was ready to move forward.

**Action:** *On a motion by Council Member Tate, and seconded to Council Member Sellers, the City Council unanimously (5-0) Adopted the Negative Declaration.*

**Action:** *On a motion by Council Member Tate, and seconded to Council Member Sellers, the City Council unanimously (5-0) Adopted Resolution No. 6033.*



Council Member Carr concurred that this is the culmination of the work started years ago with the assistance of a citizen group that provided advice as well as by working with other outside agency groups. One of the steps that needed to be done was the update to the RDCS through Measure C. With its approval, it allows the Housing Element to be completed; noting that in two years, the City will need to start on the next Housing Element update.

## ***City Council Action***

### **OTHER BUSINESS:**

#### **23. CITY MANAGER'S AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

Mayor Kennedy stated that the Council appointed a Council subcommittee consisting of himself and Council Member Tate to develop a recommendation to amend the City Manager's contract. The proposed amended contract is in front of the Council this evening. He referred to the second paragraph of the contract and read it into the record: "After review of Mr. Tewes' performance for 2005, the City Council has determined that it is very pleased with Mr. Tewes' excellent performance. The Council ad hoc committee of Mayor Kennedy and Council Member Tate, therefore, recommend a merit increase and other benefits as described in the proposed restated agreement and as highlighted below." He referred to the last paragraph; noting that there are two primary changes being recommended in the restated agreement: 1) the base annual salary increase is effective January 1, 2006 to \$159,300. He stated that this reflects a \$4,800 merit increase or a 3.1% increase. He noted that the last merit increase awarded to the City Manager was in September 2002. The agreement includes an annual CPI adjustment effective July 1, 2006, to be determined on data not yet available. 2) A provision has been included that stipulates that should Mr. Tewes still be employed on July 1, 2007, the City will reduce by \$5,000 the balance on the loan provided to him to relocate to Morgan Hill as an incentive for him to stay. This will enable Mr. Tewes to further reduce the loan balance by cashing in up to 100 hours of his accrued administrative leave. The agreement also provides for \$200 every year for personal acquisition of computer hardware/software to facilitate an out of office connection to City Hall. He stated that there are other updates to the contract as noted in the staff report. He said that Mr. Tewes' contract has been amended several times, and that a lot of the language was outdated. With the assistance of the City Attorney, the ad hoc committee has rewritten the entire agreement; making changes to eliminate the semi annual performance reviews and the requirement for a facilitator for an annual review, and simplified the process somewhat. He thanked Mr. Tewes for all he has accomplished over the last six years as it has been amazing to see all the wonderful achievements.

Council Member Tate felt it important to point out the contract modification was based on the assessment of Mr. Tewes' performance through the end of last year. As the Council was conducting performance assessments twice a year, the Council was in a consistent mode of conducting performance evaluations. He noted the Council is into the next assessment at this time. He reiterated that this amended contract was based on last year's assessment, thus, the reason providing for a retro merit increase back to January 1, 2006, reflecting the conclusion of the performance period assessed. He stated that he is pleased with the outstanding performance the City Manager has given to the City; noting the City is on track with the budget strategy and has made headways.

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**Action:**        *Mayor Kennedy made a motion, seconded by Council Member Tate, to: 1) **Approve** the Amended and Restated Employment Agreement Between the City of Morgan Hill and J. Edward Tewes; 2) **Authorize** the Mayor to Execute the Agreement on Behalf of the City, Subject to Review and Approval by the City Attorney; and 3) **Added** an Additional \$9,000 to the City Manager's Office Budget.*

Mayor Kennedy opened the floor to public comment.

Marby Lee requested clarification that the \$9,000 budget adjustment to the City Manager's Office Budget is for all increases and other items relating to Mr. Tewes' salary.

Mayor Kennedy clarified that the Council will need to make a budget adjustment in order to accommodate the recommendations as included in the agreement.

No further comments were offered.

Council Member Carr thanked Mayor Kennedy and Council Member Tate for their work on the amended agreement and summarizing the amendments; including the clarification of why the amended contract is retroactive. He felt the recommendation to be appropriate. He thanked City Manager Tewes for all his hard work and the day to day leadership/operation of the City. He noted the City has gone through difficult budget times, and that the City Manager's knowledge of the budget and his way of looking at it has been helpful. He appreciates all the advice and thought he has provided to him, as a Council Member, and the way he has helped the Council work together as a team. He felt that the terms of the amended agreement are more than deserving, and that he was pleased the Council was taking action this evening.

**Vote:**        *The Motion carried unanimously (5-0).*

City Manager Tewes thanked the Council for its support. He appreciates the chance to be able to work with the Council and an outstanding organization that serves the citizens of Morgan Hill. He said that an employment agreement is important as it provides some security. However, equally important is the challenge of the job and that he is looking forward to the additional challenges the community and the Council sends to the organization. He thanked the Council for its continued support.

Council Member Sellers noted that in the 1990s, the City had no fewer than four city managers. He said that the turnover was caused by and exacerbated by the turnover in the leadership of the organization and the City. He felt that Mr. Tewes, with this agreement extension, is on the verge of becoming the longest tenured city manager in the City's history. He felt this to be a testimony to his endurance and to the Council's ability to recognize and reward outstanding performances. He stated his appreciation to Mr. Tewes, and that he looks toward many more years of working with him, whether or not he is on the Council.

#### **FUTURE COUNCIL-INITIATED AGENDA ITEMS**

No items were identified.

**ADJOURNMENT**

There being no further business, Mayor Kennedy adjourned the meeting at 9:30 p.m.

**MINUTES RECORDED AND PREPARED BY:**

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**IRMA TORREZ, CITY CLERK**

**CITY OF MORGAN HILL  
JOINT SPECIAL & REGULAR CITY COUNCIL AND  
SPECIAL & REGULAR REDEVELOPMENT AGENCY MEETING  
MINUTES – JULY 26, 2006**

**CALL TO ORDER**

Mayor/Chairman Kennedy called the meeting to order at 5:00 p.m.

**ROLL CALL ATTENDANCE**

Present: Council/Agency Members Carr, Grzan, Sellers, Tate and Mayor/Chairman Kennedy

**DECLARATION OF POSTING OF AGENDA**

City Clerk/Agency Secretary Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2.

***City Council and Redevelopment Agency Action***

**WORKSHOP:**

**1. ECONOMIC DEVELOPMENT STRATEGY**

City Manager/Executive Director Tewes indicated that during the past couple of annual Council goal setting sessions and in Council discussions with him, the Council has talked about the desire to have the opportunity to think more strategically about key issues facing the community. He indicated that in the course of a typical Council agenda and/or Council committee meetings, there is City focus on current problems, and specific issues. He noted the City does not have the opportunity to step back and review long term strategic approaches. He stated that the importance of a "strategy" is that it allows the Council/Agency to focus on items that are important. He said the Council spent several months in drafting and in approving the current Economic Development (ED) Strategy. He noted the current ED Strategy is sufficiently broad. A question the Council can ask is whether the ED Strategy provides enough focus on City's revenues. He said the City has looked at one aspect of economic development and has spent most of its time, somewhat successfully, in improving the City's sales tax revenue to the exclusion of developing the City's economy further by looking at the opportunity of creating various industries, and improving the wealth of the community. He felt the City has spent a lot of time figuring out how to provide places the community can spend its money rather than where it can bank its money. He stated that one thing economic development does, is look at job creation; and developing, expanding, and balancing of industries in the community. He indicated that the Director of Business Assistance and Housing Services will identify the objectives of the workshop this evening. He informed the Council that staff discussed this topic briefly with members of the Community & Economic Development Committee (Committee) who gave staff some thought about how to organize this evening's workshop.

Director of Business Assistance and Housing Services Toy informed the Council/Agency Board that this evening's objectives are to review and revise the ED Strategy to better reflect goals and to maintain the

discussion at a policy/goal level. He acknowledged the City's current focus has been retail sales tax generators such as the DiNapoli-Browman retail center and auto dealers. One of the questions before the Council/Agency Board this evening is whether this focus should be changed, and if so, to what degree.

Council/Agency Member Sellers indicated that the Committee spent a fair amount of time reviewing major initiatives. He recommended the Council/Agency Board stay at the policy level and not talk about individual projects or small scale economic development. Further, that the Council/Agency Board continue to focus on the larger policy issues; looking at the major economic development policies, and giving overall direction to staff such that they can implement the direction of the Council/Agency Board.

Council/Agency Member Carr said that it would be beneficial to him, as a member of the Committee, to understand the items the Council/Agency Board would like the Committee to look at further and get into the details as contained within the plan.

Mr. Toy proceeded with a power point presentation; presenting an overview of the ED Strategy. He indicated that most of staff time will be spent in providing the Council/Agency Board with economic development indicators. Should time allow, staff would touch briefly on economic development inhibitors, with the assistance of the Chamber of Commerce and the Committee. He summarized the ED Strategy; stating that staff focused on policy issues and categories related to definitions. Under each policy issue, staff provided its perspective on some of the key issues and provided recommendations for a course of action. He said that based on the input received this evening, the Council/Agency Board is requested to refer the ED Strategy to the Committee for further discussion and refinement. The Committee is to return to the Council/Agency Board with their recommendations.

City Manager Tewes indicated that the objective for this evening's workshop is to receive input from the Council on whether or not there is a need to revise the ED Strategy. If so, the Council/Agency Board is requested to provide direction to the Committee and staff to work on the revisions. As an alternative, the Council could direct to refocus strategic efforts.

Mayor/Chairman Kennedy referred to goal 2, policy 2c. He noted this policy states "Minimize the impacts that new large retail developments may have on the financial viability of similar businesses in the City, with particular focus on the downtown. No city/agency funds should be expended to minimize the impacts." He felt it to be a strong statement to state that no city or agency funds should be expended to minimize impacts. He inquired whether this statement was too restrictive. Was the concept of using city funds for studies or additional evaluations the basis for this statement?

Mr. Toy said that it was staff's recollection that when the Council had the original discussion in 2002 regarding the ED Strategy, this was one option. Staff recommended a strategy and offered this statement as an option. It was his recollection the Council decided it wanted to include the policy for the downtown. He indicated that the City does spend money on studies and different items in the downtown area.

Mayor/Chairman Kennedy requested the Committee revisit this particular statement. He noted the policy statement contains acronyms such as: ED Committee, EDC, and C&ED. He recommended the City use a consistent acronym; noting that it appears the Committee is using different acronyms for the same term(s).

### Creation of Wealth

Mr. Toy noted that staff identified sales tax generators; indicating the City would capture as much retail leakage as possible. Staff recommends the City continue to provide ombudsman services to existing retail centers; focus on auto development north of the Ford Store; and provide less emphasis on other retail development in town. He indicated that sales tax leakage is occurring in general retail (e.g., apparel, office supplies, and appliances).

Mayor Pro Tempore/Vice-chair Grzan said that if prevention of leakage is one of the goals of the ED Strategy and the City has information that suggests specific areas, he inquired why the City is not addressing these specific areas. If the City lacks a retail appliance store, what is the City doing to actively fill this void?

City Manager/Executive Director Tewes inquired whether it would be a goal to address the categories of leakage. He noted the existing strategy talks about leakage. Staff has focused on this by trying to encourage the development of a regional shopping center. Once built, the City will have made great strides in addressing the issue of sales tax leakage to the greatest extent possible. He inquired whether the Council wants to make sure the City has the right number(s) of a particular store(s) desired.

Mayor Pro Tempore/Vice-chair Grzan said that it would be good for the Council to address the ED Strategy in general broad terms. He stated that he would like to capture sales tax leakage being lost to other cities (e.g., encouraging an appliance store to locate in Morgan Hill etc.).

Council/Agency Member Sellers said that as a rule, leakage occurs for one of two major reasons: 1) there are barriers to providing particular services (e.g., zoning not in place for a particular use); and 2) there is an excess of retail in adjacent communities. He acknowledged there is a sales tax leakage, but that the barrier to bringing these tax dollars back into the community is higher now than it was a few years ago because they exist in an adjacent community. The City may need to consider significant public assistance in order to bring uses to the community. He felt the Council has to keep in mind the general desires of the community. He noted the community desired a Trader Joe's, but that some community members did not support the addition of auto dealerships. He said the Council can deal with the sales tax leakage issues, but that it is not a matter of stating the City will focus on this and complete this goal by the end of the year. He stated that there are significant barriers to this goal and that the Council needs to understand what the barriers are before setting a policy direction.

In response to Mayor/Chairman Kennedy's question, City Manager/Executive Director Tewes said that the recommendations are primarily staff driven and that they were not reviewed by the Committee.

Mr. Toy informed the Council that it was the Committee's belief that it might be helpful if staff were to make recommendations in order to stimulate Council/Agency Board discussion.

Council/Agency Member Tate referred to the statement "less emphasis on retail development." He did not believe there should be less emphasis on retail development. He recommended the phrase "a re-evaluation of retail development" be replaced with a "wait and see" statement.

Mr. Toy clarified that staff is not going out to try and find a developer who could develop another neighborhood shopping center. However, should an individual approach the City expressing an interest in developing a shopping center, staff would provide assistance.

Mayor/Chairman Kennedy noted the City has another major intersection at Tennant and Highway 101. He inquired why the City would not continue to focus on retail development.

City Manager/Executive Director Tewes said that this is an example of a policy question staff is trying to determine. Does the Council want staff to try and assemble land and pursue a developer to build a regional shopping center at Tennant/Highway 101, or take a wait and see approach.

Mayor/Chairman Kennedy felt the City needs to focus on the project that is moving forward and to make sure that it is developed properly. He said the City may need to ease up from its marketing efforts. He suggested the first focus should be getting the DiNapli project completed. However, the City should not give up on marketing other potential sites for retail, including the Tennant/Highway 101 interchange.

Council/Agency Member Tate agreed the City should not be "shaking the bushes." However, should an individual/developer approach the City about development, the City should be interested in talking to them.

Council/Agency Member Sellers recommended the statement be amended to read: "Focus on market driven retail development." He clarified that this would mean that should an individual approach the City expressing an interest in developing on Tennant/Highway 101, the City could inform the individual that the City is also interested. This would be a market driven approach as opposed to trying to manipulate the market.

Mayor Pro Tempore/Vice-chair Grzan said that he does not object to giving staff clear direction to become more aggressive in certain areas to pursue. In looking at the policy statements in place, he felt they cover almost every issue. He said the Council/Agency Board is asking a lot to be done, but does not know how staff can achieve all goals until such time the Council/Agency focuses on a few items and achieve these items. He was not sure whether the Council/Agency Board gave staff clear direction and empowerment to do the things the Council/Agency Board wants them to do.

Mayor/Chairman Kennedy felt that Council/Agency Member Sellers' suggestion may address Mayor Pro Tempore/Vice-chair Grzan's concern: a market driven approach. He felt there were major markets that are void in the community such as major electronic suppliers as Ikea, Bass Pro, etc. He did not recommend the City focus on bringing in whatever it can, but to focus on a market.

Mayor Pro Tempore/Vice-chair Grzan expressed concern that as the City moves toward specific projects, it is driving businesses away. He felt the City needs to be successful in its own way; while maintaining the small town, rural atmosphere. While building a big box retail outlet on Tennant Avenue may be a great economic boost for the community, he felt it would detract from the small town environment that is cherished. He felt that a conflict and challenge exists in maintaining Morgan Hill what it is today; maintaining it for the future without giving it up for retail or some other type of development.

Council/Agency Member Carr does not see a great conflict as he does not want to see what Mayor Pro Tempore/Vice-chair Grzan describe take place. He noted the City has two shopping centers it is currently working on that may capture a lot of the retail leakage. He indicated the Council has been talking a lot about sales tax dollars over the past year. He said that ever since the Council developed an economic development strategy, there has been discussion about what types of services are available for the residents of Morgan Hill. He felt that this was just as important, if not more important, than merely capturing sales tax dollars. As staff works with the two centers, he would like to see these centers try to capture the retail leakage. If someone came to the City with an idea for development at Tennant Avenue, the City may want to slow this development down until the City sees how successful the current projects will be; including keeping a close eye on the downtown. If there are ways the City can focus on some of the market needs, based upon sales tax leakage studies, he recommended the City focus on these before focusing on new shopping center opportunities that may come forward at the intersections of the freeway; giving focus to the projects already started before proceeding with a new area.

Mayor Pro Tempore/Vice-chair Grzan inquired whether the City wants to pursue big box retail in the downtown.

Council/Agency Member Sellers said that there are opportunities for a diverse retail climate in the downtown. He felt it would be almost impossible to attract large retail businesses in the downtown. However, one or two larger retailers such as Pottery Barn or Restoration Hardware as anchors would be a significant catalyst. He did not believe the City would be able to attract a Costco or a retail business of this nature in the downtown partly for physical reasons and because their models would not allow them to locate in the downtown.

Mayor Pro Tempore/Vice-chair Grzan inquired whether the structure of the downtown could be changed to address parking required by large retail.

Council/Agency Member Carr did not believe it to be a population issue, but the physical nature of the downtown. Changing the downtown to provide additional parking required for a large retailer would change the character and the face of the downtown. These are not the goals he proposes for the downtown.

Mayor Pro Tempore/Vice-chair Grzan envisions downtown retail working in combination with housing. He noted the Council previously discussed the success of Santa Row. He recommended the City



consider some of this philosophy in the downtown; providing assistance and incentives for larger retailers to work with the City in this regard.

Council/Agency Member Sellers said that he has visited almost every business located in Santa Row; determining whether the businesses are national retailers, local retailers or one of a kind business. He found that Santa Row is a combination of these businesses. He felt that one or two national retail businesses would fit well with some of the local retail businesses and enhance these businesses. He said that the key is to attract a nationally recognized retail business versus big box businesses.

Council/Agency Member Carr said that he was assuming that when Mayor Pro Tempore/Vice-chair Grzan was talking about large retail, he was addressing physical square footage. It may be that Mr. Grzan was talking about name recognition. He agreed that should the City be able to attract 2-3 large name retail businesses in the downtown, they would act as catalysts for the downtown. He recommended that this become a goal.

Mayor Pro Tempore/Vice-chair Grzan clarified that he would like to attract anchor point retail businesses in the downtown (not the physical size of retail businesses).

**Action:**        *It was the consensus of the City Council/Agency Board to delete the last bullet point and include a bullet point to state that the City will focus on market driven retail. The Community & Economic Development Committee to return with more details.*

#### Commercial/Industrial Development

Mr. Toy indicated that there are 75 vacant acres remaining in the Morgan Hill Business Ranch. Staff recommends the following: 1) focus on reuse and tenant improvements (TIs) in older buildings; 2) start planning for the location(s) of future industrial area(s); and 3) consider mixed use for the vacant 75 acres; maintaining the same amount of commercial/industrial square footage.

City Manager/Executive Director Tewes noted that there is a market for residential homes. Therefore, some cities are making a great effort to convert industrial designated land to residential lands. These pressures remain, even in Morgan Hill. Staff is suggesting the City try and find a way to address the issues about residential demands without giving up on the opportunity for well planned industrial areas.

Mayor/Chairman Kennedy stated his support of City Manager/Executive Director Tewes' concept.

Mayor Pro Tempore/Vice-chair Grzan inquired whether the 75 acres currently vacant is a significant amount of land in terms of accommodating a big company to locate/relocate in Morgan Hill.

Mr. Toy said that staff has received inquiries from companies looking for approximately 75-100 acres. He noted that 75 acres is not much area of industrial land, in general. He recommended the City protect these 75 acres. He said that staff does not see a demand for manufacturing or warehouse facilities. He felt that interest would be toward R&D office type development.

Mayor Pro Tempore/Vice-chair Grzan noted the City has the southeast quadrant to talk about in terms of a manufacturing/industrial area. He inquired whether this area is where the emphasis will move; maintaining the business park for R&D type uses.

City Manager/Executive Director Tewes said that since the City has changed its long range planning horizon, the City is establishing the urban limit line beyond which the City will ever urbanize. Therefore, the City will be engaging a long term planning effort in order to make sure that within the urban limit line there is sufficient industrial land included to meet the demand for a long time. He said the City is trying to encourage development of an industrial area in the southeast area. However, staff would like to make sure the City preserves enough industrial space within the ultimate urban limit line.

Mayor/Chairman Kennedy noted the staff report talks about the creation of wealth in commercial and industrial development. He looks at the creation of wealth in sales tax generators (revenues to the general fund), not necessarily in jobs.

Mr. Toy clarified that wealth would translate into additional investment into the community and into the building; noting that TIs will need to be installed in order to upgrade the building and meet current standards. He clarified that this is a broad category.

Mayor/Chairman Kennedy stated that he was comfortable with staff's recommendation as identified.

**Action:**        *It was the consensus of the Council/Agency Board to concur with staff's recommendation.*

### Downtown Development

Mr. Toy stated that downtown sales tax revenue is flat; indicating that in 2001, it peaked at \$100,000+ and has been at approximately \$90,000 for the past three years. Although the downtown does not generate significant sales tax revenue, the downtown affords the quality of life, and is the heart/soul of the community. He felt this is what brings a lot of individuals to patronize the downtown businesses. He noted the Council allocated housing units in the downtown and will consider the formation of a PBID later this evening. Further, improvements are being made along Depot Street, including a commitment of a Third Street promenade. Staff recommends the City continue with existing efforts and activities for the downtown. Should a Redevelopment Plan amendment be approved this year, this will provide the City with the resources needed to provide improvements to the downtown.

Council/Agency Member Sellers noted that staff referenced the Plan Amendment, and that staff addressed the improvements being made/to be made to Depot and Third Street. There has been a lot of talk about parking, lighting and related infrastructure improvements for the downtown. He recommended that this be included as a statement; placing emphasis on infrastructure improvements. Infrastructure improvements could include parking, traffic mitigation measures and related issues.

**Action:**        *It was the consensus of the Council to add an emphases on infrastructure improvements in the downtown.*

### Business Attraction

Mr. Toy inquired whether the City wants to attract specific industries. Does the Council want to see new businesses occupy existing spaces? Does the Council/Agency Board want to take a look at incubators? He stated that staff proposes to conduct a study to try and get a better feel for what the City has. As an alternative, the City could try to figure out and create what type of industry is desired. However, this approach would be difficult. Staff recommends: 1) the City take a look at what it has and then decide which way to go. 2) The City to continue its “ombudsman” services in order to encourage companies to come to Morgan Hill. 3) Less emphasis to be placed on the incubator concept because it is expensive and there are no guarantees the companies will stay in Morgan Hill. 4) Conduct a preliminary study to assess the industry mix to better evaluate which industries to target. 5) Less emphasis to be placed on responding to all “blanket” inquiries as they take a lot of time. Staff believes it would be better to focus its efforts on interested companies.

Council/Agency Member Tate questioned the need for proceeding with studies to figure out which industry the City wants to target. He inquired whether the study would result in meaningful results.

Mr. Toy noted the City has a diverse economic base.

Council/Agency Member Sellers said that the City is in the verge of having a world renown research institute coming to town. If the City is going to proceed with a study, he felt the City would be foolish not to focus on this future addition. He said that without the research institute existing in the Peninsula, the area would not have developed or become known as “Silicon Valley.” He felt it reasonable to expect that a major research institute would attract other businesses. He would like to know if there is a way to quantify the number of businesses to be attracted and then use this information to market what businesses are doing. Should the City is to proceed with a study, he recommended the City focus on research institutes.

Mr. Toy said that it is staff’s belief that it can undertake the study in house; using a graduate intern to provide the base preliminary data. The Council could determine from this information whether it should move forward with the next step. He felt that it could cost \$30,000-\$50,000 to conduct a study by a consultant, depending on the focus of the Council.

Council/Agency Member Carr stated that he would support applying less emphasis on inhibitors. However, in talking about less emphasis on incubators, he felt the City needs to talk to its economic development partner in the Chamber of Commerce. It was his belief the role of responding to blanket inquiries was the role of the marketing arm of the City’s Chamber of Commerce partnership. He inquired how the City could rely on its economic development partnership with the Chamber in taking on more of these roles for the City, when appropriate to do so.

Mr. Toy said that the City is assisting the Chamber of Commerce in providing information to blanket inquiries.

City Manager/Executive Director Tewes said that both the City and the Chamber of Commerce spent a lot of time on blanket inquiries. However, at times, inquiries are focused on questions that only the City can respond to.

Mayor/Chairman Kennedy expressed strong support in retaining the ombudsman program in place as it has always been an important issue for him.

**Action:**        *It was the consensus of the Council/Agency Board to agree with the recommendations as outlined.*

### Job Creation & Retention

Mr. Toy indicated that this section relates to more local jobs for residents; attracting more desirable commercial amenities and retailers. He noted that approximately 60% of the City's population commutes more than 30 minutes. Staff recommends the City focus on business retention, and not discuss business attraction under this category.

Council/Agency Member Sellers inquired whether there was an issue with job retention and whether there was an exodus of jobs to a significant degree.

Mr. Toy responded that staff has not seen an issue with job retention.

City Manager/Executive Director Tewes said that staff wants to make sure that as companies grow and prosper, they expand in Morgan Hill. He noted that jobs can be lost because businesses fail. There can be loss in jobs attributed to businesses being so successful and having the desire to move to another community to meet their needs. He said the Chamber of Commerce can be helpful in talking with existing businesses; keeping the City informed of their plans and how well they are doing. This will allow the City to ensure that as businesses grow, they grow in Morgan Hill.

Mayor/Chairman Kennedy recommended the City do what it can to assist businesses grow in Morgan Hill. He did not know whether what was being recommended by staff adequately addressed this issue. He recommended a stronger statement be added.

Council/Agency Member Carr recommended there be discussion about economic development important to helping a business thrive and stay in Morgan Hill (e.g., workforce housing, education, having a place in the downtown where people want to live, transportation, etc.). He felt that if a majority of employees reside in the community, it would be difficult for businesses to uproot their businesses/employees and move out.

Mayor/Chairman Kennedy indicated that a study of where employees live is being conducted by the Chamber of Commerce. Also, being studied are commute patterns, and ride sharing opportunities. He stated that he prepared a study in 2000, for his employer, on job origin-trip destination for Morgan Hill and Gilroy. He found that a large number of workers commuted to Morgan Hill from Gilroy. A fair number of individuals from Morgan Hill commuted north. It was found that Gilroy was much more self

contained in their employee base with a great percentage of the workers living/working in Gilroy. He recommended the City tie into the Chamber's report as it would provide good information.

Council/Agency Member Sellers agreed that a majority of the workforce in Morgan Hill do not reside in Morgan Hill. He noted there are highly skilled workforce/residents in Morgan Hill with a vast majority commuting to other communities everyday. This provides the City with a unique opportunity of retention and new business opportunities to give more thought to the City's residents in terms of the level of education and areas of expertise they bring. He recommended the Committee look at bringing these two items together.

#### Workforce development

Mr. Toy said that this category relates to training the local workforce. In return, this workforce would attract and target a certain industry. Staff believes Morgan Hill already has a well educated and trained workforce in place. He does not believe there should be focus on workforce development. It was his belief the City should market its workforce.

City Manager/Executive Director Tewes said that cities with larger populations are eligible for a variety of state and federal workforce development programs. Therefore, an economic development effort would include workforce development. He indicated the City is not eligible for these funds. Therefore, to the extent there is involvement by the City, it is part of a larger region that is engaged in workforce development. He indicated the City does not focus on this as part of the economic development strategy.

Mayor/Chairman Kennedy noted there is a workforce investment network in Morgan Hill with access to Gavilan College and programs that can be established for employers. He felt the City needs to engage both these entities to help employers ensure they have adequately trained employees. He did not support the recommendation that there be less emphasis in this area. He recommended greater emphasis be placed in working with employers, local educational institutions, and job search providers in order to develop the skills needed. He suggested the City tap into the resources that can be found in the community.

Council/Agency Member Sellers stated that given limited staff resources and financial resources, the Council/Agency Board needs to give consideration to the items in terms of priority, noting that this is a low priority to him.

Mayor/Chairman Kennedy felt there was a way to accomplish this goal without tying up a lot of resources. He suggested making a connection with these entities, having the information available, knowing who to refer to, etc. Further, that a staff member from the Business Assistance and Housing Services Department meet with these entities and establish a relationship.

Mayor Pro Tempore/Vice-chair Grzan noted the County opened a job training center adjacent to the post office recently on a contractual basis.

Mayor/Chairman Kennedy clarified that he was referring to the Silicon Valley Workforce Investment Network that is tied with the Department of Employment and a variety of government funded resources.

### Business Climate

Mr. Toy indicated that this section addresses revising the development process to make it customer friendly and reduce the economic development inhibitors. Staff recommends the Committee take a look at the inhibitors in relationship to what the Council decides at this workshop. The Committee can return with their recommendation to the Council. He indicated the Council will be reviewing the Customer Service Development Audit in August and that recommendations will be presented. Staff would recommend that some of the Audit recommendations be implemented.

**Action:**        *By consensus, the Council/Agency Board agreed with staff recommendation.*

### Quality of Life

Mr. Toy indicated that this section relates to infrastructure development: making sites ready for development, allowing more development in certain locations, and improving/enhancing the community infrastructures to improve quality of life. Improving the quality of life will attract businesses and residents. Staff recommends a Redevelopment Plan amendment in order to provide resources for community improvements. The Redevelopment Agency would then need to prioritize which project(s) should proceed.

Council/Agency Member Sellers recommended the downtown and Monterey Road core from Cochrane to Tennant Avenues be investigated.

### ED Inhibitors

Mr. Toy indicated that this section provided a brief summary of what was contained in the economic development inhibitors memorandum (e.g., retail uses relating to zoning and land use policies; city-wide development, specifically how impact fees may affect projects; downtown development in terms of impact fees affecting development and the design approval process). Staff recommends it be allowed to discuss inhibitors with the Committee. The Committee is to return to the Council with a recommendation(s).

Council/Agency Member Sellers said that the Committee conducted an initial review of the inhibitors at the last meeting and that this will be an ongoing process that will be discussed every month by the Committee. He stated that the Chamber has done a great job in reviewing the inhibitors; raising 3-4 inhibitors at the last Committee meeting.

Mayor/Chairman Kennedy referred to the Memo of July 21, specifically the new list of economic development to ED inhibitors. He knows the Committee and staff have been working on this for some time. He wanted to get a sense of what has been done and what needs to be done.

Mr. Toy said the Committee plans to bring a recommendation for Council approval; including an action plan. Staff would then implement whatever needs to be changed. He said that some actions can be done by minute action while other actions would require changes to the ordinance(s). The Committee and staff would develop a timeline for the action plan and a timeline for what needs to be done.

Mayor/Chairman Kennedy inquired whether there were inhibitors the Committee would like Council direction.

Council/Agency Member Carr said the Committee was interested in going through this work and setting goals for an economic development strategy. The Committee would then go back and look at the inhibitors one more time to see if they require new goals or a new direction. To be determined is whether they remain inhibitors.

#### Customer Service Audit

Mr. Toy addressed the key findings of the Customer Service Audit; with the main focus on why customers are dissatisfied with the process.

Mayor/Chairman Kennedy said that there are times when one gets bogged down in looking for faults and/or finding fault, and the City forgets to focus on what it is doing right.

Mr. Toy said that the Audit recommends the following: putting more information in writing; include a better definition of the appeal process (customer service); and provide tracking performance measures.

City Manager/Executive Director Tewes said that this was an audit of development services, and it was not an audit of economic development. He recommended that real estate development and economic development be thought of broadly. He stated that the development services audit was recommended, following the process audit of a couple of years ago. It is being suggested that to the extent the City can be clear up front and helpful, individuals may be able to understand the process, and how/why decisions are made. It is not just about providing individuals with the fee schedule, but explaining what happens to City resources if fees are not paid. He felt the basic message of the customer service audit is that the City needs to do a better job of explaining, in lay terms, what the City is doing and why. Staff wanted to make sure the Council is aware of the fact that the Audit has been conducted, even though the Council has not yet seen the results of the Audit.

#### Performance Measure

Mr. Toy pointed out that when it comes to economic development, this is the toughest category to come up with measurements that gives you an idea of results. Part of the issues are the timelines and data.

#### Resource Impact

Mr. Toy said that depending on Council/Agency direction on priorities, it may impact existing resources and may require additional resources or redirection of resources (e.g., time, money and staff). Staff

recommends that this be referred to the Committee who will return to the Council/Agency Board with recommendations relating to the economic development strategy and the economic development inhibitor list.

Mayor Kennedy opened the floor to public comment.

Dan Ehrler, Chamber of Commerce, referred to the “Creation of Wealth.” He stated that he supports the added emphasis on infrastructure with respect to parking and lighting in the downtown. He felt that this was critical as it has been raised in previous conversations and issues before the Council. In terms of the response process and in working with the City, a question was raised by Council Member Carr relative to the Chamber doing certain things. He clarified that the Chamber will receive a call from an individual who wants to bring a business to Morgan Hill, or they want to start a business in Morgan Hill. He stated that there is certain information City staff has, and that he and staff meet with the individuals. He addressed the comments relating to placing less emphasis on incubators and/or responding to blanket inquiries. He indicated the Chamber is looking at metal/bio tech possibilities. He felt it important to continue to explore these. He said that there are some inquiries that will have no relevance to Morgan Hill. However, there are some that could have relevance. He does not recommend losing these opportunities. In terms of creation of jobs and partnering with One Stop and Gavilan College, he felt there may be some opportunities in terms of this being a facilitated process. He felt the Chamber and the City can take this on; especially as it relates to the relationship with the various companies in Morgan Hill. Regarding the ride share program, he stated that the priority for 2006-07 will be holding 10 meetings with companies; either individually or in small groups, in order to find out how they are doing, what is needed, and/or what can be done to assist businesses and their employees. It is his hope that economic development inhibitors will be brought back to the Council. The Chamber is looking for potential changes in policies and ordinances as it would be important to do so for existing businesses and businesses coming to Morgan Hill. He felt that decreasing the inhibitor list will be critical. He stated that the Chamber is grateful for the efforts being made by the City in the economic development partnership.

Randy Toke informed the Council that he is the chief financial officer for a company coming to Morgan Hill in the next 2-3 months, serves on the Chamber’s Board of Directors, and is a member of the Chamber’s Economic Development Committee. He said that there are many charges and improvements that go into the cost of bringing businesses to Morgan Hill. The most important question to ask is how much will it cost to come to Morgan Hill. He noted that Morgan Hill has high land values and that the more costs you add to land values, the more difficult it is for businesses. He heard the other day that VTA is looking at bringing reverse commute from the south to Morgan Hill. This could provide an affordable labor supply to businesses. He stated that a list of economic development inhibitors can be reviewed, but that the Council needs to look at the entire picture; including the cost of land, the fees to be charged, cost of labor, and whether it is prudent for a business to come to Morgan Hill. He said that Santa Row is an artificial concept. He indicated that Santa Row rents are high, but that businesses had very little costs to get into the retail center. He noted there was talk about the customer service audit relating to an appeal process. Although Morgan Hill is blessed with incredible staff that he enjoys working with, reasonable minds can differ. He felt there needs to be a process in place that works quickly, efficiently, and fairly; a process that is measured in a week. It is his understanding that when



there is a disagreement, the individuals who set the standards are asked to look at the issue and recalculate fees. He did not believe these individuals should be the final arbitrators of their own decisions. He noted the community has competing values. It was his belief that when you have new development, general plan amendments and zoning changes, it would be appropriate to ask for many things to make the community better. However, he did not believe it would be appropriate to require imposition of fees or other types of improvements when you have developed parcels and you are trying to fill empty buildings. He stated that it is important to look at costs and how quickly a business can get in and be opened for business.

Craig Van Kuelen requested the Council go back and look at the general plan designation for none retail commercial as it was his belief there was confusion, and that adequate notice was not given to individuals; particularly to land owners. He stated that the land use designation description talks about properties at the corners of intersections, but the properties that are affected are the properties between the intersections. He requested the Council consider whether there really is a problem that needs to be fixed, or does the City want to create another hurdle for retail businesses to go through. He felt that this zone change would impact “mom and pop” businesses and not big box tenants. He recommended the City consider exemptions for spaces of 1,500 square feet or less, or a certain percentage of the total square footage of a center. If you look at how the land use designation and the zoning ordinance is being implemented, you will see that retail uses are being allowed. However, it is a situation where the City would be creating a zoning ordinance and land use designation that would allow a retail use the City may not desire. He felt that staff has done a great job, but requested the Council give consideration to whether or not this was an appropriate general plan land use amendment. If the City believes it was, he recommended the Council give consideration to exceptions from the stand point of square footage for tenants that would allow the mom and pop businesses to locate in this zoning district without having to go through significant hurdles. Should the Council believe the City needs to retain this land use/zoning designation, he recommended that an administrative process be included as opposed to a conditional use permit process which could be expensive and may result in losing a potential tenant.

Alex Kennett applauded the Council/Agency Board for taking a macro approach to this matter. He recommended the Council/Agency Board consider looking outside the box, looking at where the City needs to be 15-20 years from now and work backwards from this point. This will allow the Council to address all the needs and approaches. He noted that a marketing approach was mentioned. However, a problem with a market approach is that by the time you get around to it, the market changes. He felt that decisions need to be global and include everything mentioned this evening, and then some. He stated that he has advocated for a version of a Santa Row, but that this does not mean it has to be a 10-story facility. The city has to plan for its version of what a Santa Row should be in order to make individuals comfortable and that it fits in with the community. He thanked the Council for working with the Chamber of Commerce and that he looks forward to working with the City in the future.

No further comments were offered.

## **RECESS**

Mayor/Chairman Kennedy recessed the meeting at 6:48 p.m.

## **RECONVENE**

Mayor/Chairman Kennedy reconvened the meeting at 7:05 p.m.

## **SILENT INVOCATION**

## **PLEDGE OF ALLEGIANCE**

## **INTRODUCTIONS**

Steve Rymer introduced Chris Ghione, Centennial Recreation Center Supervisor.

## **CITY COUNCIL REPORT**

Mayor Pro Tempore Grzan reported the following:

- He will be assisting Steve Rymer, Recreation and Community Services Director, in taking the Little Llagas Creek Wildlife Nature Trail concept before the Parks & Recreation Commission next month and to the Library, Cultural & Arts Commission the following month. He stated that he will be promoting the restoration of Little Llagas Creek in order to turn it into a wonderful opportunity for Morgan Hill to celebrate and preserve its open space.
- He took a tour of the Wastewater Treatment Plant; indicating that it is near capacity. He said that efforts are in place to expand its capacity based on the investment of a partnership with the City of Gilroy to build a mutual water treatment facility years ago. He indicated that the last time the South County Regional Wastewater Authority met, he was elected chair of this committee.
- As chair of the Utilities & Environment Committee, he reported that the City almost maxed out on its ability to pump water to the community. This brought the City to a serious emergency situation that will be addressed later this evening. He stated that water continues to be a precious commodity in the community and California. The Committee will continue to pursue ways of conserving water within the community.
- He has been an advocate for drought tolerant native California plants throughout city facilities. He recommended the City consider the use of drought tolerant native California plants not only for public facilities, but as a potential for private development to consider as well. He felt the more we blend in with our natural surroundings with landscaping, plant fauna and low drought tolerant native California plants, the better we will be able to preserve the water supply and have it available during emergency situations. The Committee will be looking at this recommendation.
- He noted there was a significant heat wave occurring all across America. This brought to mind the global warming is not 100-200 years away, but here today. He recommended the necessary steps be taken to make sure Morgan Hill is doing its part not to contribute to global warming.

Further, that the City look at energy as well. He recommends aggregating the community's energy needs to provide energy to the community at a lower cost, sometime in the future. Further, that the community conserves water/energy in planning for the future; making sure that these resources are adequate for the City.

Mayor Pro Tempore Grzan indicated that the Committee is looking at all of the above listed items and will be returning to the Council with a recommendation on policies in this regard.

### **OTHER REPORTS**

None.

### **CITY MANAGER REPORT**

City Manager Tewes acknowledged that many citizens of Morgan Hill experienced power outages; some for several days. He stated that citizens have shared their frustrations with City staff. He stated that staff will be talking to PG&E about their investment plans for the plant located in Morgan Hill so that modern pieces of equipment are put into place in order to withstand similar circumstances. He indicated that as the City Manager, he has been unsatisfied with the level of information he has been able to obtain from PG&E. He informed the Council that he has been in touch with PG&E representatives and that in the after action reports, he will be following up on how PG&E can provide better information. If this is a precursor to a larger emergency in the event of an earthquake or a natural disaster, the City will not be adequately served by the type of information it received. He stated that staff would be following up on these items.

### **CITY ATTORNEY REPORT**

City Attorney Kern indicated that she did not have a City Attorney's report to present this evening.

### **PUBLIC COMMENT**

Mayor/Chairman Kennedy opened the floor to public comment for items not appearing on this evening's agenda.

Charles Weston indicated that he is a Vietnam Veteran and that he has appeared before the Council in the past requesting the POW-MIA flag be allowed to be flown without penalty. He said the ordinance in place states that the American flag is the only flag that can be flown in Morgan Hill. He requested the Council review the ordinance and find a way to include the POW-MIA flag in the ordinance as it is a reminder to everyone about the consequences of war.

Evonne Davenport stated that she is in attendance this evening representing the Morgan Hill DOG owner group to invite the Council to the "Walk a Pooch" fundraiser event to be held at Community Park on August 12.

Council Services & Records Manager Torrez, on behalf of the Centennial Committee, invited the City Council, City staff and the community to the next Centennial Event - a Community Barbeque & Birthday Party to be held on Saturday, August 5 from 12-9 p.m. at the Community & Cultural Center. There will be an old fashion BBQ, food booths, vintage transportation, kids and family games and live entertainment, featuring the Joe Sharino Band at 6:00 p.m. There will also be a centennial birthday cake for all to enjoy.

No further comments were offered.

### ***City Council and Redevelopment Agency Action***

#### **ADOPTION OF AGENDA**

Mayor Kennedy indicated that there has been a request to move item 22 forward. He said that if there is no opposition by the Council/Agency Board, item 22 will be considered following the conclusion of the Consent Calendar. No opposition to this suggested agenda modification was noted.

### ***City Council Action***

#### **CONSENT CALENDAR:**

**Action:** *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Approved** Consent Calendar Items 1-12 as follows:*

2. **ACCEPTANCE OF FARALLON DRIVE STORM DRAIN AND MISCELLANEOUS STORM DRAIN REPAIR PROJECT**

**Action:** *1) **Accepted** as Complete the Farallon Drive Storm Drain System and Miscellaneous Storm Drain Repair Project in the Final Amount of \$367,973.; and 2) **Directed** the City Clerk to File the Notice of Completion with the County Recorder's Office.*

3. **ACCEPTANCE OF SUBDIVISION IMPROVEMENTS FOR TRACT 9602, MISSION RANCH PHASE VII**

**Action:** *1) **Adopted** Resolution No. 6034, Accepting the Subdivision Improvements Included in Tract 9602, Commonly Known as Mission Ranch Phase VII; and 2) **Directed** the City Clerk to File a Notice of Completion with the County Recorder's Office.*

4. **PRELIMINARY JUNE 2006 FINANCE AND INVESTMENT REPORT-CITY**

**Action:** ***Accepted** and **Filed** Report.*

5. **AMENDMENT TO IMPROVEMENT AGREEMENT WITH LUSAMERICA**

**Action:** ***Approved** Amendment to the Improvement Agreement with Lusamerica and **Authorized** the City Manager to Sign the Amendment on Behalf of the City; Subject to Review and Approval by the City Attorney.*

6. **ACCEPTANCE OF SUBDIVISION IMPROVEMENTS FOR TRACT 9500, TUSCANY MEADOWS**  
***Action:** 1) Adopted Resolution No. 6035, Accepting the Subdivision Improvements Included in Tract 9500, Commonly Known as Tuscany Meadows; and 2) Directed the City Clerk to File a Notice of Completion with the County Recorder's Office.*
7. **PUBLIC WORKS LANDSCAPE MAINTENANCE AGREEMENT FOR FISCAL YEAR 2006-2008**  
***Action:** 1) Approved Maintenance Agreement for Grounds and Landscape Maintenance Services for Fiscal Years 2006-2007 and 2007-2008 to New Image Landscape Company in the Amount of \$281,065; and 2) Authorized the City Manager to Execute an Agreement on behalf of the City; Subject to Review and Approval by the City Attorney.*
8. **RESOLUTION OF SUPPORT FOR ABAG TO CREATE A COUNTYWIDE SUB-REGION WITHIN THE REGIONAL HOUSING NEEDS ALLOCATION PROCESS**  
***Action:** Adopted Resolution No. 6036, Authorizing the City of Morgan Hill to Become a Member of a Countywide Sub-Region Consortium with the Purpose of Locally Administering the ABAG Regional Housing Needs Allocation Process.*
9. **IMPROVEMENT AGREEMENT WITH MORGAN HILL RETAIL VENTURE L.P.**  
***Action:** Authorized the City Manager to Execute an Improvement Agreement with Morgan Hill Retail Venture L.P. for the Cochrane Road and Highway 101 Retail Center, Subject to Review and Approval by the City Attorney.*
10. **ADOPT ORDINANCE NO. 1786, NEW SERIES**  
***Action:** Waived the Reading, and Adopted Ordinance No. 1786, New Series, and Declared That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING A ZONING AMENDMENT TO ESTABLISH A PLANNED UNIT DEVELOPMENT ON A 3.5 ACRE SITE LOCATED ON THE NORTHEAST CORNER OF THE INTERSECTION OF MONTEREY ROAD AND BISCEGLIA AVENUE (APNs 817-01-061, 062, 063 & 064) (ZA-05-09: Church-Alcini).***
11. **ADOPT ORDINANCE NO. 1787, NEW SERIES**  
***Action:** Waived the Reading, and Adopted Ordinance No. 1787, New Series, and Declared That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING DEVELOPMENT AGREEMENT APPLICATION DA-05-08 FOR APPLICATION MC 04-15: CHURCH - ALCINI (APN 817-01-061 & 064) (ZA-05-09: CHURCH-ALCINI).***
12. **ADOPT ORDINANCE NO. 1788, NEW SERIES**

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**Action:** ***Waived** the Reading, and **Adopted** Ordinance No. 1788, New Series, and **Declared** That Said Title, Which Appears on the Public Agenda, Shall be Determined to Have Been Read by Title and Further Reading Waived; Title as Follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING AN AMENDMENT TO A PRECISE DEVELOPMENT PLAN FOR AN EXISTING PLANNED UNIT DEVELOPMENT (PUD) ORDINANCE (ORDINANCE NO. 1687) TO ALLOW AN APPROXIMATELY 167,500 SQUARE FOOT ABOVE GROUND MATHEMATICS CONFERENCE CENTER WITH A 34,385 SQUARE FOOT UNDERGROUND GARAGE AND A NEW 185 SPACE SURFACE PARKING LOT TO REPLACE AN EXISTING 121 SPACE PARKING LOT ON AN APPROXIMATELY 54 ACRE SITE LOCATED AT 14830 FOOTHILL AVENUE (APNS 825-30-007 AND 825-29-002) (ZAA 03-03: FOOTHILL – THE INSTITUTE).***

## ***Redevelopment Agency Action***

### **CONSENT CALENDAR:**

**Action:** *On a motion by Agency Member Tate and seconded by Agency Member Sellers, the Redevelopment Agency Board unanimously (5-0) **Approved** Consent Calendar Items 13-15, as follows:*

**13. PRELIMINARY JUNE 2006 FINANCE AND INVESTMENT REPORT-RDA**

**Action:** ***Accepted** and **Filed** Report.*

**14. REQUEST FROM WESTON-MILES ARCHITECTS FOR A LOAN FOR OFF-SITE IMPROVEMENTS**

**Action:** ***Authorized** the Executive Director to do Everything Necessary and Appropriate to Loan Weston Miles Architects up to \$10,000 for Off-Site Improvements for Their Depot and Main Street Project, Subject to the Same Provisions as the Existing Loans.*

**15. AUTHORIZATION TO APPLY FOR AND ACCEPT A CALIFORNIA HOUSING FINANCE AGENCY (CalHFA) RESIDENTIAL DEVELOPMENT LOAN FOR HOUSING PROJECTS – Resolution MHRA-262**

**Action:** ***Adopted** Resolution MHRA-262, Authorizing the Executive Director to: 1) Apply to the California Housing Finance Agency (CalHFA) “Residential Development Loan” Program for a Loan of up to \$2,000,000, and 2) Do Everything Necessary and Appropriate to Accept and Execute the Loan Agreements with CalHFA; Subject to Review and Approval by Agency Counsel, if Awarded.*

## ***Redevelopment Agency Action***

### **OTHER BUSINESS:**

**22. OWNER PARTICIPATION AGREEMENT (OPA) WITH GUNTER BUILDING, LLC.  
FOR THE REDEVELOPMENT OF THE FORMER GUNTER BROTHERS BUILDING**

Director of Business Assistance and Housing Services Toy presented the staff report regarding an owner participation agreement for the renovation of the Gunter Brothers' building. He informed the Council that the property owner has revised the plans to accommodate a three-story mixed use project with ground floor retail commercial, second floor office and third floor residential. The project has received Architectural & Site Review Board approval for phase I development. He stated that based on the expanded project, it has resulted in a larger financial gap for the project. He addressed the terms of the owner participation agreement. He stated that the project would eliminate a blighted structure and would replace the existing building with a building that will enhance the northern gateway to the downtown.

Chairman Kennedy opened the floor to public comment. No comments were offered.

Agency Member Sellers said that this is a challenging project where you try to figure out what to do with an old feed store. He noted the project proponents have stepped forward with a development plan and felt that it would turn into a showcase project. He said that the action before the Agency Board is within the financial parameters and that the office space will be vital to the success of the project.

**Action:** *On a motion by Agency Member Sellers and seconded by Agency Member Carr, the Agency Board unanimously (5-0): 1) **Authorized** the Executive Director to do Everything Necessary and Appropriate to Execute and Implement the Owner Participation Agreement with Gunter Building, LLC. in the Amount of \$462,400; Subject to Review and Approval by Agency Council, and 2) **Appropriated** \$462,400 from Fund 317.*

***City Council Action***

**PUBLIC HEARINGS:**

**16. ASSESSMENT OF HAZARDOUS VEGETATION MANAGEMENT PROGRAM  
CHARGES – Resolution No. 6037**

Council Services & Records Manager Torrez presented the staff report, informing the Council that since 1995, the City's Hazardous Vegetation Management Program has been administered through a contract with Santa Clara County's Department of Agriculture and Resource Management. This evening, the Council will be concluding the 2006-Hazardous Vegetation program by hearing comments from the public and establishing the final report for the program. Upon Council adoption of the Final Report, the Report will be sent to the County Assessor's Office for charges to be made to properties that had abatement work performed this past year by the contractor(s) retained by the Santa Clara County Department of Agriculture and Resource Management. She indicated that 267 parcels were included in the 2006-Hazardous Vegetation Program. Of this number, 55 parcels had their parcels abated by the County's weed abatement contractor. She indicated that letters were mailed out to the 55 property owners advising them of the hearing on assessment this evening. She stated that staff received 8 calls

from property owners who had questions about their assessments. These property owners worked with the Weed Abatement Program Coordinator; resulting in two properties being taken off the list: APNs 817-12-003 and 817-13-026. APN 728-02-003 has had its assessment charges reduced from \$284.33 to \$142.16. She informed the Council that Moe Kumre, Weed Abatement Program Coordinator, was in attendance to answer any questions the Council may have.

Mayor Kennedy opened the public hearing. No comments being offered, the public hearing was closed.

**Action:** *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Adopted** Resolution No. 6037, Ordering the Final Report on the 2006 Hazardous Vegetation Program be Transmitted to the County Assessor's Office and that Liens be Posted Against the Properties on the Report, amending the exhibit per staff recommendation.*

**17. PUBLIC HEARING AND ADOPTION OF RESOLUTIONS CONFIRMING FISCAL YEAR 2006-2007 ANNUAL ASSESSMENT FOR THE FOX HOLLOW-MURPHY SPRINGS ASSESSMENT DISTRICT – Resolution Nos. 6038 & 6039**

Mayor Kennedy announced that he would be recusing himself from participating on this item as he resides within 500 feet of one of the parcels. He excused himself from the Council Chambers.

Deputy Director of Public Works Struve presented the staff report; indicating that on June 28, 2006, the Council adopted a resolution declaring its intent to levy assessments and set this evening as the date for the public hearing. He informed the Council that there are no proposed changes in assessment rates at this time to any of the sub areas. He indicated that there are four sub areas (Conte Gardens, La Grande, Sandalwood, Jackson Meadows #7) with high fund deficit attributed to the failure of passing a proposed increase in the rate assessment. Staff proposes to reduce maintenance to a minimum for these four sub areas. Staff recommends the City use the revenues available from the assessments raised to pay back the deficit balances. He said that it would be necessary for the Council to adopt two resolutions: 1) approving the Engineers Report; and 2) ordering the levy and the collection of assessments. He stated that staff would conduct weed abatement twice a year; maintaining trees, turf would not be watered, and that wood chip mulch would be installed throughout the area where turf is to die. He said that the overall plan is to use the available revenue to pay the fund deficit back. When the deficit is eliminated, staff could again provide additional services; reducing the scope of work. He indicated the residents are aware of the deficit. The residents are not happy about the reduction in services, but are tolerant of the situation.

Mayor Pro Tempore Grzan opened the public hearing. No comments being offered, the public hearing was closed.

**Action:** *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council, on a 4-0 vote with Mayor Kennedy absent, **Adopted** Resolution Nos. 6038 & 6039; Confirming the Fiscal Year 2006-2007 Annual Assessment for the Fox Hollow/Murphy Springs Assessment District.*



Mayor Kennedy resumed his seat on the Dais.

**18. FORMATION OF PROPERTY-BASED IMPROVEMENT DISTRICT (PBID) –  
*Resolution No. 6040***

Director of Business Assistance and Housing Services Toy addressed the process to be undertaken this evening on the formation of a Property Based Improvement District (PBID). He indicated that in June 2006, the City/Agency adopted a resolution of intent to form a Morgan Hill Downtown PBID and authorized the Executive Director/City Manager to sign the ballots in favor of the assessments. He stated that the Agency has committed \$75,000 in matching funds, if the PBID is formed. The PBID would fund a variety of improvements and activities related to capital improvements, economic development, marketing, pedestrian safety and security, public space and public policy advocacy. He stated that in accordance with the provisions of Government Code 53753 and Article 218 of the California Constitution, the City gave notice, by mail, to the owners of record for each identified parcel in the proposed PBID on June 9, 2006, and that each notice included an assessment ballot and a summary of the procedures for the completion of the return and the tabulation of the ballots.

Mayor Kennedy opened the public hearing.

Dan Ehrler, representing the Chamber of Commerce, stated that if the votes are positive and the PBID is formed, the Chamber of Commerce is ready and is looking forward to working with the Downtown Association in assisting in appropriate ways to help make the PBID successful and fulfill the goals and objectives of the PBID. He felt the continuation of the partnership with the Downtown Association is important to the Chamber and that they will do whatever it can to support their efforts with this process.

Mayor Kennedy addressed the procedures to be followed this evening, including the receipt of public testimony from all interested persons for or against the establishment of the district.

Gary Walton, representing the Downtown Association and speaking as a downtown property owner, informed the Council that the Association has worked hard in terms of working with property owners in order to establish this district. It is the Downtown Association's hope the results are in the affirmative to form the district. He thanked the City staff for all its assistance through the process. He indicated that there were a number of property owners and board members in attendance this evening in support of the PBID; including Joe Hammand, Leslie Miles, Brad Jones, Eric Wallace, Jim Krause and Rocke Garcia.

Rock Garcia indicated that he was not supportive of the PBID the last time this item was before the Council, but that there has been clarification such that it would be beneficial to the downtown. He stated his support of the formation of the PBID, indicating that he is the largest private contributor to the PBID.

Benny Kwong stated his support of the PBID.

No further comments were offered and no other assessment ballots were submitted.

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**Action:**      *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Authorized** the City Clerk's Office to Open and Count the Ballots.*

The City Council considered Items 19, 20 and 21 at this time.

## ***Redevelopment Agency Action***

### **OTHER BUSINESS**

#### **19.      COMMERCIAL REHABILITATION LOAN PROGRAM FOR DOWNTOWN SMALL BUSINESSES**

Director of Business Assistance and Housing Services Toy informed the Agency Board that the Community & Economic Development Committee recommends adoption of a loan program for small businesses located in the downtown; authorizing the Executive Director to do everything necessary and appropriate to implement and develop such a program. He identified the program goals of eliminating blight, foster economic revitalization of the downtown, provide funding to rehabilitate existing commercial buildings, fill financing gaps, and provide desired service amenities to the community. He addressed the loan process, qualifications for the loan program, and loan terms.

Chairman Kennedy opened the floor to public comment.

Leslie Miles stated that this is an excellent opportunity for existing small downtown businesses to be able to expand and improve their current businesses. It is also an opportunity to retain successful businesses that have had a hard time getting additional funding/financing for interior improvements. She said the grant program with the façade improvements has been successful in the downtown. She felt that individuals would take advantage of the program, and will give the smaller downtown businesses the assistance to develop their interior space in the same manner the exteriors have been developed. She recommended the program become a revolving loan fund so that there is a fund established for this program. Perhaps interest earned can go into a fund that can be continually used over time to retain this type of program and becomes self sustaining.

No further comments were offered.

Agency Members Sellers indicated that this program was reviewed by the Community & Economic Development Committee. He said the Committee wanted to make sure the City was not putting off wholesale changes in the downtown by creating business opportunities in areas where larger changes would be more appropriate. Upon reviewing the program, items were included that would give the City the opportunity to sustain and expand existing businesses by giving businesses the opportunity to succeed; helping to expedite wholesale changes if businesses are located in an area where the City might want to see larger changes.

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**Action:**      *Agency Member Sellers made a motion, seconded by Agency Member Tate, to **Authorize** the Executive Director to do Everything Necessary and Appropriate to Develop and Implement a Commercial Rehabilitation Program for Downtown Businesses Based on the Approved Program Parameters, Including Execution of Loan Documents and Minor Modification of the Program Parameters; Subject to Review and Approval by Agency Counsel.*

Agency Member Carr said that as a member of the Committee, he was concerned that the Agency would be investing in buildings, and perpetuating the retention of buildings that should be redeveloped. Instead, the City may be band aiding buildings and assisting property owners with a 10-year loan at zero percent interest. He stated that he still has concerns about this, but as explained by staff, there is a lot of flexibility in the loan committee and in the recommendations to the Executive Director on the terms/length of the loans. He suggested the loan committee look at the true life of the building the City is putting money into and whether the City should be looking at a shorter life span; finding ways to encourage buildings to be redeveloped sooner rather than extending the life of properties that should not be extended.

Agency Member Tate inquired as to the budgeting for this program. He noted there is money set aside for this program at this time, on a first come first served basis. He inquired as to what would happen to the repayments.

Mr. Toy stated that staff will budget annually for this program. He clarified that interest would return to the Agency and that staff would rebudget the fund. He indicated that this would be a revolving loan fund in the sense that it is rebudgeted every year, if it is the Agency Board's direction. This would not be similar to the CDBG revolving loan where monies go back into the loan fund and continues to be recycled. This program has been set up so that it is reauthorized each year as part of the budget, similar to the facade program. The program would be on a first come, first served basis. He stated that \$150,000 has been budgeted for this program. With the plan amendment, the Agency can budget more money into the program.

**Vote:**      *The motion carried unanimously (5-0).*

## ***City Council Action***

### **OTHER BUSINESS:**

#### **20.      CONSIDERATION OF CONSTRUCTION BID FOR DEPOT STREET RECONSTRUCTION PROJECT**

Deputy Director of Public Works Bjarke presented the staff report on the Depot Street Reconstruction Bid. He informed the Council that it has been presented with a supplemental staff report where staff is recommending award of the bid and making the necessary budget adjustments to ensure proper funding for the project. He addressed the improvements completed/proposed for Depot Street; indicating that all improvements amount to a \$5 million investment for Depot Street. He indicated the City held its bid

opening for this project on July 11, 2006. He informed the Council that the bulk of the street improvement project is funded with a \$2.6 million MTC grant. When the project was put together, staff did not see a need for extensive underground storm drain work. However, when staff began the design, it became apparent that there was a need for storm drain work for the project in order to allow proper drainage. He indicated that the net result of the bids for the storm drain was a \$660,000 hit to the project. He said that there are sufficient storm drain funds to pay for this portion of the project. The items contributing to the shortfalls were: RDA funds previously taken away, storm drain work, overhead costs beyond what was anticipated, and the results from the construction bids. He informed the Agency Board that staff reviewed the bids and found that the low bidder was at 11% above the engineer's estimate.

Mr. Bjarke identified Agency Board options: 1) reject bids this evening, 2) perform value engineering for the project, or 3) rebid the project at a later date. Without hurting the project and compromising the aesthetics of what the City wants to accomplish, staff could not find any value engineering items that would make up the deficit. He said that should the Agency Board reject the bids and rebid the project at a later date, construction costs would rise. Staff does not believe the City would gain by rebidding the project. Further, staff does not want to be under construction during the winter months.

Mr. Bjarke indicated that staff made commitments to downtown businesses that the project would be completed before the end of the calendar year. He informed the Agency Board that the City was rejected for additional grant funding to supplement the project. Staff proposes to reduce the contingency for the street portion of the work from 10% to 7%. It is staff's recommendation the Agency Board supplement the \$660,000 storm drain work with non obligated storm drain funds. Further, that the Community & Economic Development Committee supports transferring money from the Redevelopment Agency Economic Development budget to this project in the amount of \$470,000; \$380,000 of this amount would come from the Granada Theatre project, leaving a balance of \$620,000 in that account; and \$90,000 from the downtown entry feature to make up the balance. Staff recommends the Agency Board make budget adjustments to fund this project, award the bid for the project, and to carry over the funds for this project from last year's budget to this fiscal year's budget. He clarified that staff is recommending the project be broken into two components: 1) underground storm drain work to remain at 10% contingency; and 2) the street work contingency is proposed to be reduced from 10% to 7%.

Mayor Kennedy opened the floor to public comment.

Dan Ehrler said that when the Chamber of Commerce first heard about the project, it had a concern about its timing relative to the Taste of Morgan Hill event. In his initial contact with city staff, he found staff to be responsive in engaging the Chamber and bringing them in on the discussions about the project. The Chamber and staff were able to discuss this concern and that the Chamber was assured that access for participants to the Taste of Morgan Hill will have access onto Monterey Road via Main Street. At the meeting he attended Friday, he did not realize that a portion of the \$1 million earmarked for the Granada Theater would be used for this project. He informed the Council that the Chamber of Commerce is supportive of the Granada Theater. He recommended the Agency Board keep the Granada Theater funds in tack for use in the future.

No further comments were offered.

Chairman Kennedy recommended that the contingency funds go back into the economic development project where they were removed, should they not be used.

Council Member Sellers indicated that this is a situation where there are no attractive options. He acknowledged the Agency Board does not want to spend these extra funds. However, there is too much at stake in terms of timing/financial commitments associated with the MTC grants. He felt that it was incumbent upon the City to stay with the original schedule. He said that all projects the Agency is taking funds away from will continue to be priorities for the Community & Economic Development Committee. The Committee considered that should the Redevelopment Plan be extended this fall, this would coincide with the timing for these other opportunities. While the Agency has funds allocated for the Granada acquisition, it will be a long term prospect; it believes that purchase would more than likely take place next year. The Committee wanted to maintain the financial commitment, but realized it would be wise to use these funds in the short term; transferring the funds to this critical project in order to make sure the project is completed.

**Action(s):** *On a motion by Council Member Sellers and seconded by Council Member Carr, the City Council unanimously (5-0) **Approved** staff recommended actions as listed in the supplemental staff report as follows: 1) **Rebudgeted** to FY 06-07 All Remaining Unexpended Funds for CIP Project No. 539005; 2) **Appropriated** \$660,000 from Current Year Unappropriated Storm Drain Non-AB 1600 Fund Balance; 3) **Transferred** \$470,000 of Current Year RDA Economic Development (317-8010) Appropriations into CIP Project No. 539005, Depot Street Reconstruction; 4) **Awarded** Contract to Wattis Construction Company for the Construction of the Depot Street Reconstruction Project, Including the Deduction of Revocable Bid Item for a Metal Arch, in the Amount of \$2,868,356; and 5) **Authorized** Expenditure of Construction Contingency funds not to Exceed \$215,300.*

**21. REPORT ON POSSIBLE BALLOT MEASURE TO AMEND THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM ORDINANCE (MEASURE C) FOR DOWNTOWN MIXED USE PROJECTS - Resolution Nos. 6041, 6042, 6043**

Director of Community Development Molloy Previsich stated that at the end of 2005, the Council charged the Community & Economic Development Committee to report back on whether a ballot measure to amend Measure C to facilitate housing and mixed use construction in the downtown would be feasible. She indicated that a workshop was held in January 2006 with stakeholders in attendance. The Committee discussed a proposed ballot measure; reporting back to the Council in March 2006 that it would be feasible to include a ballot measure in June. The Council directed the Committee to continue discussing this matter; indicating that the Committee discussed this matter on a monthly basis. Another workshop was held on June 12 that was well attended by stakeholders. Last week the Committee met and decided to forward a recommendation that a measure be placed on the November 7, 2006 ballot. She stated that the main purpose of the measure would be to allow up to 100 additional housing units to be located in the downtown and to remove the timing of construction limitations for projects awarded allotments in March 2006; consisting of over 350 units. The measure would allow flexibility so that

these projects could be started and completed without regards to fiscal year limitations. She informed the Council that the Committee forwards the following ballot measure for Council consideration:

Do the citizens of the City of Morgan Hill ordain that Ordinance 1665, Residential Development Control System be amended to allow the City Council, by resolution, to establish a process for allocating up to 100 additional residential unit allotment in the downtown core for small projects that meet minimum RDCS scores and for adjusting the timing of existing allocations within the downtown RDCS boundary, providing the projects are consistent with the Downtown Plan.

Ms. Molloy Previsich informed the Council that staff mailed notices of this evening's meeting and the proposed ballot measure language to the stakeholders. Subsequently, the City Attorney and others have raised questions about the language. She informed the Council that staff had to draft the ordinance that would go along with the ballot measure question. In reviewing the RDCS ordinance, it necessitated a supplemental staff report with another version of a possible ballot measure question. She indicated that there are two differences in the supplemental ballot measure language that has been forwarded to the Council by the Committee: 1) it defines small projects as being up to 15 units; and 2) allows partially allocated projects to draw from the 100 units. She stated that staff recommends the Council: 1) consider the recommendation of the Committee, 2) open the floor to public comment, 3) decide whether to call for an election, and 4) approval of the contents of the ballot measure.

Mayor Pro Tempore Grzan noted the supplemental staff report states that the Committee, many members of the downtown, and the development community believe that allowing additional residential units and allowing flexibility in the timing of construction of mixed use could be beneficial for downtown businesses/residents and the entire community. He inquired what benefits would be derived should the Council allow the development of the additional 100 units.

Ms. Molloy Previsich responded that she was not sure if this was a quantitative benefit, but a qualitative benefit in terms of achieving the goals of the Downtown Plan for the development of additional housing and mixed use projects in and near the downtown core.

Mayor Pro Tempore Grzan noted the City is proceeding to do things differently than what was originally proposed for the downtown. Therefore, he felt there may be some perceived benefits, whether it is financial or otherwise. He would like to be able to state that there are some economic benefits to proceeding with a ballot measure. He noted a concern about the downtown and its viability to sustain businesses. Should an amendment to Measure C be successful and the downtown does not gain economically from the measure, he did not believe the Council would fulfill a mission it is trying to achieve. If the City cannot measure the benefit, he would have a concern.

Ms. Molloy Previsich stated that to the extent development occurs sooner in the downtown, additional property taxes would be generated. There would also be additional sales tax dollars from downtown residents and businesses. She noted that downtown businesses generate approximately \$100,000 per year in sales tax. She said that it would be a reasonable expectation that this amount would grow with additional residents patronizing the downtown.

Mayor Pro Tempore Grzan indicated the Council is seeking to make the downtown more lively. However, should the additional downtown residents not make it more lively and the City added more units, then the Council has not achieved one of its goals. He stated that there is logic to suggest there will be additional sales tax dollars associated with additional residential units in the downtown. However, he needs to know how much the sales tax would increase, and whether it would be enough to sustain and create a viable downtown. He stated that he would like to make a risk free assessment, and to make sure the City meets its intended goals.

City Manager Tewes stated that an extensive fiscal analysis of this particular proposal before the Council was not conducted. However, the impact of building 100 residential units in the downtown is part of the Council's goals. The question before the Council is whether these units should be constructed sooner rather than later. He felt that intuitively, it would seem that the vitality of the downtown would be enhanced by allowing the units to be constructed sooner rather than later.

Council Member Tate indicated that the Council received new wording for the ballot measure this evening and that he was trying to understand it. In the first draft of the measure, it states the Council will adopt a process to allow more units to develop in the downtown. The second draft of the measure states the City would allow 100 additional units in the downtown, but does not advise how this is to be accomplished.

Ms. Molloy Previsich clarified that the first version of the ballot measure question is referenced by resolution. She stated the City Attorney questioned this particular mechanism. It was decided to include the process in the implementing ordinance. She noted that the implementing ordinance states that the Council will adopt procedures.

Council Member Tate expressed concern that the voters will not understand how the additional units would be accomplished.

City Attorney Kern stated that the Council can implement the law adopted by the voters. She said that she has concerns with an initiative ordinance where the voters would be instructing the Council to do something by resolution. Staff modified the ballot measure to have the voters adopt an ordinance that amends the general plan and the municipal code to allow 100 additional units for small projects up to 15 units and partially allocated projects; providing the projects are consistent with the Downtown Plan and meet the minimum RDSC scores. She indicated that the ordinance contains the language that authorizes the Council and Planning Commission the ability to adopt procedures to implement the 100 units. She clarified that a resolution is not the legal mechanism to implement an initiative. It was her belief that the ability for the Council to come up with processes to implement this goal still stands as contained in the existing ordinance.

Council Member Tate indicated that the City defined a small project, but did not define the downtown core.

Ms. Molloy Previsich said that the definition of the downtown core was contained in the first version of the ballot measure. She informed the Council that ballot measures are limited to 75 words. Therefore, the definition was included in the ordinance where it is clearly defined.

Council Member Sellers noted that language was added that defines small projects of up to 15 units. He stated that the Committee discussed this definition and determined the appropriate number should be higher. He inquired whether there was a legal reason a small project had to be defined as 15 units or whether it was within the parameters of the City Council to determine what the number should be.

Ms. Molloy Previsich said that the current ordinance defines a small project as being up to 15 units. She clarified that the current point evaluation procedures would not change with the proposed ordinance. She stated that the ordinance allows Council discretion when it establishes the procedures to decide whether a competition is needed or whether allotments would be distributed on a first come first served basis. The ballot measure states that projects need to be submitted, scored and receive a minimum score before proceeding. She indicated that pages 17 and 18 of the proposed ordinance contains the current categories and the number of points per category. Further, there is another part of the RDCS that gets into more detail about the point distribution. However, the point distribution is not a part of the proposed voter initiative.

City Attorney Kern clarified that the point system listed on pages 17 and 18 of the proposed ordinance is a part of the existing Measure C scoring criteria. The scoring criteria was codified in the ordinance and is voter approved. Should the Council wish to include a change in points on the ballot, this would be the opportunity to do so. The second section is the evaluation/scoring process that was adopted by Council ordinance. She indicated that this section could be modified at any time without having to go to the voters, should the Council so desire. She stated that the Council could work with the Planning Commission and adjust points under the various categories.

City Manager Tewes stated that it has been the Council's practice to ask a group to evaluate the previous competition after each competition and make recommendations regarding an evaluative criterion. He noted the Council developed special evaluative criteria for downtown projects that received allocations in the last competition.

Mayor Kennedy referred to page 2 of the supplemental staff report; noting that it contains the ordinance language. He inquired whether this was the ballot language before the Council for discussion/consideration.

City Attorney Kern clarified that the voter pamphlet will include the ballot measure, not the ordinance text amendments being proposed. The ballot will refer voters to the City Clerk for a copy of the entire ordinance. She stated that the voter pamphlet would include arguments for and against the measure, the impartial analysis prepared by the City Attorney, and rebuttals for/against.

Council Member Sellers confirmed there has been an extensive public hearing of the process, noting that the process has been taking place for approximately 6 months with a couple of large workshops being



held. He thanked staff and the downtown property owners/businesses for all the time and energy put forth toward this effort.

Mayor Pro Tempore Grzan inquired why the 100 residential units identified was selected.

Ms. Molloy Previsich clarified that the proposed ballot measure of 100 units complies with the California Environmental Quality Act (CEQA) as it falls within the envelop of development already studied. Should this number be increased, additional CEQA work would be required. She indicated that the current RDCS ordinance mandates the Council set aside a certain number of allotments for the downtown through Fiscal Year 2009-2010. After this time, the ordinance states the Council may create a special downtown set aside, but does not have to. She stated that the number of units to be allotted to the downtown would be decided upon by a future Council action. She said that should the voters approve the ballot measure/ordinance, the Council will be able to move forward 100 units in the downtown immediately and move progress in the downtown by several years.

Mayor Kennedy opened the floor to public commit.

Rocke Garcia indicated that he is the property owner of the Sunsweet site and a 28-year Morgan Hill resident. For 80 years, the downtown supported Morgan Hill, and felt it was time the rest of Morgan Hill supported the downtown. He indicated that he has a project that has been approved for 57-units and is working diligently on this with his architect. Should the 100 units be built at an average cost of \$400,000 each unit, this would result in \$40 million dollars. He indicated that his property's tax value is at \$600,000 and would increase to over \$30 million. He felt that this would be significant dollars coming back to the City; not to mention the sales tax dollars to be generated from these new residents as they will spend their money in the downtown district. He felt the objective of revitalizing the downtown is to get residents to spend their money in Morgan Hill. He stated that he wrote a letter, in conjunction with the Downtown Association, to the Council regarding the extension of the RDA. He stated that the extension of the RDA is important to the downtown. The letter requests funds to provide offsite improvements in order to improve the downtown, should the extension be approved. He felt the downtown needs lighting so that people can feel safe when they walk in the downtown. He supports the 100 units as it would add a competition to the downtown; noting that it is a different market place from other areas being built. He felt the City needs a mixture of housing types and that the extra 100 units would provide this mixture. He requested the Council approve placing the measure on the ballot and allowing citizens to vote on the measure.

Michele Beasley, representing the Greenbelt Alliance, stated that Greenbelt Alliance is supportive of compact mixed use development in downtowns, and along transit corridors. She felt Morgan Hill's downtown has the potential to be the heart and soul of the community. She did not believe that constantly building single family homes on the fringes of town does anything to support the downtown. She said that a possible ballot measure that would add 100 units to the downtown would have many benefits and that a variety of housing types would accommodate a diverse workforce. Further, additional residents in the downtown would support local businesses. She said the only way to achieve a vibrant downtown is to have more people living in the downtown. Allowing the 100 units would place more individuals within walking distance of Caltrain and would help reduce traffic/air pollution, and would

help protect Morgan Hill's greenbelt by reducing urban sprawl. A way to combat more heat waves in the future is to direct new development into existing developed areas instead of paving over farmlands, hillsides and open areas.

Dan Ehrler informed the Council that the Morgan Hill Chamber of Commerce Board of Directors voted unanimously to support the placement of the measure on the November 7, 2006 election. It is the Board's belief that passage of the ballot measure would be beneficial to the downtown and Morgan Hill, in general.

Brad Jones, Morgan Hill resident and downtown business owner, said that a growth control ordinance has been good for the community as a whole, but bad for the downtown. He requested the Council place this ballot measure before the voters to determine whether they want to have a carefully planned community and a vibrant downtown. He felt that mixed use development would add to the property based improvement district monies coming in, if the formation of this district passes this evening.

Gary Walton, representing the Downtown Association, addressed the economic benefits associated with the passage of the proposed ballot measure that would be attributed to increase density in the downtown. He felt it would make sense to place people in the downtown to enjoy the investment the community has made in the downtown. He said that the Downtown Association wants to make sure the 100 units are allocated in a fair way; recognizing the projects already approved in the core as well as being fair to the projects outside the core. The Downtown Association believes the ballot measure would allow the opportunity to look at the big picture. He felt this would be a good opportunity to get meaningful citizen involvement in the decisions about growth and development. He stated that the Downtown Association Board took a unanimous vote in support of the ballot initiative.

Ralph Lyle stated that he was not representing anyone or any organization other than himself. He said that he took a quick glance at the new ballot measure version. He felt the City Attorney and the Director of Community Development should be complimented as it is a great improvement over the prior version. He addressed the items that greatly improved the measure. He stated the City has identified the number 15 as the definition of small projects for almost 30 years. He noted that Measure C included language regarding possible ways of assisting downtown development. He stated that specific paragraphs were included as can be found on page 12. He said that keeping 15 units as the definition of small projects would be consistent with prior actions. Should this number be changed, inconsistencies would result because the particular number contained in the paragraph is not being proposed to be changed. He clarified that it was a broad based group that determined the number 15 would be specific to the downtown. He felt it important to include ongoing projects as an equity issue, and complete downtown projects that would have a great benefit. With respect to past history, he stated the City has always given priority to ongoing projects. With respect to non downtown units, it would be an equity issue. He felt the Council would like to have a set aside for other new projects in the downtown. By including 36 units with the 100 units, the City would have room for new downtown projects and non downtown projects. He referred to page 12, two paragraphs under Section E. He felt the two paragraphs were in conflict. There are other places in the document that state: "...exclusive of the special 100-units, the following is true." He felt that this language is needed in 2 places in section E. He reiterated his preference to this version of the ballot measure over the previous version(s).

Charles Weston indicated that he does not have a copy of the most current draft ballot measure and does not believe that everyone has had the opportunity to review and comment. He did not believe the current Measure C scoring competition works. He felt the downtown competition is cumbersome and does not fit. He indicated that the economics of the downtown are different. He noted the Council approved \$500,000 to a project that realized it could not complete its intended design due to many difficulties in developing in the downtown. He felt that Measure C adds a tremendous amount of money, complexity and stalling tactics; even though he believes that Measure C, in the most part, has been a benefit to the community. However, it is a detriment to accomplishing the downtown goals. He stated his support of the 100 units. He felt the number 15 was a haphazard/farcical number that has been pulled out of a hat. He did not believe there was a history associated with the 15 unit definition. He felt the 15 units was an attempt to slow down the process and make it competitive, with what he perceives as a threat from development at Cochrane and Highway 101. He stated that the downtown needs assistance to eliminate the hindrances in its ability to compete.

Dan Craig stated that he is speaking as a citizen of Morgan Hill and in support of placing the measure on the November 7, 2006 ballot, as it is a start. He indicated that the more units built in the downtown, the better chance he has of being able to afford to buy or rent in the downtown. He felt there were others in his situation as well as young singles and young couples who would like to live in the downtown and do not want to maintain yards and have big homes. It was his belief he was speaking on behalf of a large market group. He supports infill development and with what the Greenbelt Alliance representative addressed.

Leslie Miles indicated that the Measure C competition is cumbersome for the downtown. She stated that she was on the RDCS subcommittee who tried to work through some of the issues. She felt there is an opportunity to revisit Measure C, look at some of the issues that occurred last year, and discuss how to resolve these issues. She said the ballot measure is the only way to move ahead with getting downtown units in place. As a property owner on Depot Street, she indicated that they have been undergoing the construction process. She felt the infrastructure is a place to start. Despite the fact that there are 360 units approved in the downtown, there are approximately 80 units in what can be considered the core. The projects that have been approved in the downtown are: her 12-unit project, Mr. Garcia's project, and Manou Mobedshahi's potential project of 7-8 units. She did not believe the competition was benefiting the core area of the downtown that is key to redevelopment, retail development, and increased sales tax dollars/property tax dollars. She recommended the City try to develop all of the infrastructure at the same time so that businesses will not be impacted, and that businesses/individuals can move in. It was her hope the Council will move forward with a ballot measure so that voters can understand how important it is to reduce development in green areas and focus on a viable transit oriented downtown.

No further comments were offered.

Council Member Sellers pointed out that these are all mixed use projects; therefore, retail would be added to the downtown as you add residential. He said that the bottom line with all of downtown development is to have an integrated, high density, diverse community. He said that a goal since 1989 has been to develop a sense of community. He felt the ballot measure would further this goal by

developing mixed use projects, not just housing units. He stated that it is important to recognize the proposed ballot measure does not increase the population cap. He indicated that there was some talk about raising the population cap and that it was determined that this did not make sense. If the population cap needs to be raised, it was decided that this should be a separate issue. It was felt important to retain the current population cap in order to go to the citizens to state the City would be placing units in the downtown instead of creating more urban sprawl. He felt that Mr. Walton addressed the economic benefits associated with additional mixed use in the downtown. It was also important to recognize that the ballot measure would assist in creating a sense of community so that individuals can feel safe. This is a modest start, but significant. He stated that the City would have the opportunity to revisit the scoring criteria; noting that the RDCS committee members have tried to come up with a better criterion. He indicated the Committee had an extensive discussion and have concurrence with two items: 1) Recommends 25 units as the definition for small projects, or eliminate the wording altogether. He said the Committee reviewed all projects that might be able to take advantage of this. It was realized that there are several small projects, but that some projects can accommodate 23-25 units. The Committee did not want to preclude a project in the downtown. 2) Regarding partially allocated projects within the downtown core, the Committee recommends the elimination of “and for partially allocated projects within the downtown RDCS boundary.” He stated that it is the Committee’s recommendation the Council move forward with the ballot measure with these two changes to the ordinance.

**Action:** *Council Member Sellers made a motion, seconded by Council Member Carr, to Adopt Resolution No. 6041, Calling and Giving Notice of the Holding of a General Municipal Election to be held on Tuesday, November 7, 2006 for the Submittal to the Voters of a Ballot Measure to Revise Ordinance No. 1665, New Series, to Allow for up to 100 Additional Housing Units, and the Removal of the Timing of Construction Limitations for Downtown Housing and Mixed Use Projects that are Consistent with the Downtown Plan; with the following modifications: 1) Section 2, for small projects of up to ~~15~~ 25 units within the downtown core, and for partially allocated projects within the downtown core, ~~and for partially allocated projects within the downtown RDCS Boundary.~~ And allowing earlier starts....”*

Council Member Tate recommended the elimination of the word “small” as small to him means 15 units or less.

Council Member Sellers concurred with Council Member Tate’s recommendation to delete the word “small.”

City Attorney Kern understood the Council has agreed to delete the word “small.” Therefore, it is being stated that the ordinance would be adopted to amend the general plan and the municipal code to allow 100 additional residential allotments for projects of up to 25 units within the downtown core, and for partially allocated projects within the downtown core; not the RDCS boundary, a different boundary than the downtown core.

Director of Community Development Molloy Previsich informed the Council that there are no partially allocated projects within the downtown core. She stated that the partially allocated projects within the

downtown RDSC boundary is the project referenced by Council Member Sellers located at Butterfield and Main Avenue. She noted this project needs 36 additional allotments to be completed. She inquired whether it was the intent of the Measure to focus on the downtown core and allow flexibility in the timing of projects allocated. Should the Council wish to facilitate the 36 units at Main and Butterfield in order to complete the project, the clause needs to be retained. If not, it can be removed.

Council Member Sellers clarified that he would stand by his original motion to stipulate 25 units within the downtown core, eliminating the wording up to the semi colon.

**Action:** *Council Members Sellers/Carr clarified the motion to stipulate the ballot measure is to read as follows: “Shall an ordinance be adopted to amend the Morgan Hill General Plan and the Municipal Code Residential Development Control System to allow 100 additional residential allotments for projects of up to 25-units within the downtown core; and allowing earlier starts and completions for downtown projects allotted in March 2006; provided that all projects are consistent with the Downtown Plan and meet minimum RDSCS scores.” Further, the language in the ordinance is to be amended to be consistent with the proposed ballot measure.*

Mayor Kennedy noted there is a potential for 36 more units for the Ahlin project. He inquired as to the South County Housing project located on Diana Avenue.

Ms. Molloy Previsich indicated that the South County Housing project is fully allocated, and that this ballot measure would allow flexible timing of construction for all downtown RDSCS boundary projects.

Council Member Tate stated his support of a measure being placed on the ballot. However, he wants to give the ballot measure the best chance for passing. He expressed concern about not being specific in how the Council would grant the additional allocations. He felt that it leaves it up to a vague process to be determined at a later date. It was his belief that Measure C works. The City has set asides in order to ensure that like projects are competing with like projects. He agreed that with the last downtown competition, the Council did not give added value to the core area and that the Council should have done so as part of the criteria. He noted that Council Member Sellers and Ms. Miles talked about the fact that the Council has learned a lot about the criteria and that it can be modified to be better. He felt strongly that the Council should commit to a competition for the additional 100 units. He did not believe it should be left up to the Council as it would politicize the process. He acknowledged the City has a process in place that does not work perfectly, but that the Council is getting it to work. There will be future downtown Measure C competitions following the allocation of the 100 units. He would like to take the direction of staying as close to Measure C as possible; having a competition while maintaining the population cap. The City would not be exempting units; only moving the 100 units forward as well as some of the units previously allocated.

Council Member Carr indicated that the ordinance stipulates the Council may establish procedures for scoring and awarding the 100 allotments. He noted the Council has time between now and the election date to come up with the process. The Council can define clearly what the process may be before citizens vote on the Measure. He said that it was his intent to find ways to facilitate new projects within

the downtown core; moving them up quicker in order to accomplish the goals of the Downtown Plan. He felt that talking about the goals of the Downtown Plan are important; thus, the reason for the wording being specific in the measure as being consistent with the Downtown Plan. He noted that all segments of the community came together to draft the Downtown Plan. There is also the notion of meeting a minimum RDCS score. He felt there has to be some type of scoring mechanism in place and that a minimum score is needed in order to attain allotments. However, the Council needs to define how the scores come about through the process discussed. He stated that it is not possible for one project to build all 100 units. The number 25 came about by talking to property owners/developers at a meeting about the realities of what can take place at some of the opportunity sites. He noted that the motion states “up to 25 units.” It could be the Council determines that 25 units is high and that it could be a lesser number. It is his hope the Council supports moving forward with a ballot measure. He acknowledged there are other details that need to be worked out and recommended the Council commit to getting this work done before November; prior to citizens casting their votes on the measure.

Council Member Grzan stated that he would support a ballot measure. However, he is looking at the larger picture. He stated that the economic/vitality to be gained from the 100 units is important. He was not sure whether the 100 units were sufficient to get the City to where it wants to be. He would like to look at a larger study in order to take the City to where it wants to be. He said the Council needs to continue to evaluate what the downtown will need in order to fit the picture of a vital downtown. He would also like the Council to consider the scoring process. He was not sure whether the scoring criteria needs to be evaluated and looked at differently for the core/downtown. He stated that the City does not have sufficient water to supply should another situation arise. He recommended the City look at sustaining development in order to ensure there are sufficient resources for the 100+units. He encouraged the City to evaluate the use of plants and plant material to move the City to a congruent landscape with the local surroundings; using draught tolerant/native California plants.

Mayor Kennedy indicated that he has seen how other cities plan for their downtown. He felt that the Council needs to increase the density in the downtown so that it can be viable; the sooner the better and before losing more downtown businesses. He stated that he would be supporting the motion.

**Vote:**            *The motion carried unanimously (5-0).*

**Action:**        *On a motion by Council Member Sellers and seconded by Council Member Carr, the City Council unanimously (5-0) **Adopt** Resolution No. 6042, Setting Priorities for Filing Written Arguments Regarding a City Measure and Directing the City Attorney to Prepare an Impartial Analysis.*

**Action:**        *On a motion by Council Member Sellers and seconded by Council Member Carr, the City Council unanimously (5-0) **Adopt** Resolution No. 6043, Providing for the Filing of Rebuttal Arguments for City Measures Submitted at Municipal Elections.*

**18.    FORMATION OF PROPERTY-BASED IMPROVEMENT DISTRICT (PBID) –**  
***Resolution No. 6040 (continued)***

City Clerk Torrez informed the Council that pursuant to the procedures for the completion, return, and tabulation of the assessment ballots which have been adopted by this Council, she has tabulated the ballots, submitted and not withdrawn in support of or in opposition to the proposed assessment. A total of 65 ballots were properly returned to the City Clerk. With ballots weighted according to the proportional financial obligation of each affected property, she has determined that ballots representing \$44,268.05 in financial obligation were returned in support of the proposed assessment. Ballots representing \$11,730.99 in financial obligation were returned in opposition to the proposed assessment. She indicated that 79% of the ballots, as weighted, were cast in support of the proposed assessment. Therefore, there is not a majority protest against the proposed assessment.

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Carr, the City Council unanimously (5-0) **Declared** the Results of the Ballot Process and Closed the Public Hearing.*

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Carr, the City Council unanimously (5-0) **Approved** Resolution No. 6040, Authorizing the Formation of the PBID, the Levy, and Collection of Assessments for a Period of Five Years, Commencing Fiscal Year 2006-2007.*

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Carr, the City Council unanimously (5-0) **Approved** the Final Engineer's Report (Previously Submitted).*

City Clerk Torrez informed the Council that one of the ballot votes submitted contained a letter and she read the letter from Barbara and Jim Ahlin, owners of the Morgan Hill Flea Market, into the record; indicating that they did not believe the property should have been included in the assessment district.

## ***City Council Action***

### **PUBLIC HEARINGS:**

#### **23.     SPECIAL EVENT USERS FEES AND PARK/FIELD RENTALS – Resolution No. 6044**

Director of Recreation and Community Services Rymer presented the staff report, indicating that the Parks & Recreation Commission included the review of special event user fees and park/field rentals as part of their Fiscal Year 2005-06 workplan. The Commission evaluated whether to recommend Council establishment of user fees for special events. He indicated that the Commission recommends a full cost recovery strategy for special events and a partial cost recovery for the City's sports fields and picnic areas. He addressed the proposed special event user fee and park fee rental charges. He brought to the Council's attention an error contained within Exhibit A, the lower right hand corner. The exhibit did not include the correct proposed fees for the picnic rental areas (should read \$37 and \$74 and not the listed \$28 and \$56 amount).

Mayor Pro Tempore Grzan noted the Council is being requested to approve a method for annually increasing the proposed fees. He inquired why staff did not choose a consumer price index (CPI) as opposed to actual costs.

Mr. Rymer said that it was his understanding that the CPI is the common calculation that is used and applies to increased fees and would remain consistent within this region.

Mayor Pro Tempore Grzan supported annual increases. H recommended the City look at actual costs as opposed to a standard.

City Manager Tewes indicated that the City's fee resolution provides that most of the miscellaneous fees are to be adjusted annually by the CPI. Therefore, this increase is not a new feature. He clarified that it has been the City's practice to review the cost recovery aspects once every five years with a comprehensive study of the entire fee structure. Therefore, instead of waiting every five years to adjust the fees, the ordinance and resolution provides for annual adjustments until such time the City conducts a comprehensive review.

Mayor Kennedy opened the public hearing.

David McPhearson, President of the Silicon Valley Baseball Association, indicated that for the past five years, the Association has had the opportunity to utilize the fields in the City. He indicated that there are approximately 350 youth participating in the program. He said that the issue of costs were addressed approximately 4-5 years ago. At that time, the Association explained that it was putting in a significant amount of money into the fields; including maintenance of the fields. He stated the Association has reviewed the fees as recommended by staff. He acknowledged that there are costs associated with the use of the lights, and felt that the \$1-\$2 per hour charge was a good starting point. Although the Association is putting money into the fields, he acknowledged that City staff has costs associated with administering the Association's use of City facilities. He noted the Association pays fees for the entire year. He requested that a policy be established that would authorize credit for days/hours not used that are beyond the Association's control, should the fees be adopted. He said that should rainouts occur, practices would be cancelled and that games/activities would be rescheduled. There is approximately \$2,000 in costs associated with the inability to use the facilities that would be passed on to users. He indicated that other cities provide the association credit for rain out and/or field renovation, and requested the same consideration from Morgan Hill.

David Dotty, President of the Spirit of Morgan Hill Girls Softball Association, indicated that the Association has been receiving great deals as far as the use of fields. He stated that he shares the same concerns as raised by Mr. McPhearson regarding receiving credit for none use of the fields/lights, etc. He inquired whether there was an established priority for residents of Morgan Hill to use the facility over non residents; noting that non residents would be paying more for the use of the facilities. He stated that he would hate to see a shift in the usage going to non residents as a result of achieving higher income. He indicated that the Association provides a lot of maintenance to the fields on an annual basis. He inquired whether there were to be changes in the maintenance of the fields as a result of the fee/rental rates to be paid (concern with condition of fields and safety of users).



No further comments being offered, the public hearing was closed.

Mr. Rymer informed the Council that staff has not addressed the inclement weather policy, but that staff can look into such a policy. He referred the Council to page 337 of the agenda packet. From an application process stand point, he stated that the hours are fixed as these are the upfront costs/time associated with permitting the fields. Therefore, staff is recommending cost recovery for expenses be included within the application process. He said that a lot of the expenses are built into staff time already invested. He said that a staff member would need to assist in the management of the lighting system. However, if the lights are not used, there should be no charge. Regarding the resident versus non resident priority, he indicated that staff did not discuss a priority policy.

Municipal Services Assistant Dieter informed the Council that the resident versus non resident concern has not been a problem. It was her belief that local teams have an understanding about each other's schedule. Therefore, everyone has their time in the use of the fields. She indicated that the City occasionally receives an application from an out of town team requesting use of the fields. She indicated that the regular users accommodate the use of the fields when asked and that she has not seen a problem.

Council Member Sellers stated that there is a concern that the City may issue permits to non residents as their application would generate more revenue. However, it sounds as though City staff is able to accommodate all residential needs.

Mr. Rymer said that the proposed fees are intended to cover existing expenses, and that is not proposed to increase maintenance. However, the City would maintain and keep the ball fields safe. He clarified that it is not being proposed to charge for electricity if not being used. He said that rainouts and inclement weather result in additional administrative costs. He stated that staff will review the implementation strategy in terms of what is fair to the users and what makes sense in terms of staff time.

Deputy Director of Public Works Struve said that there is a timer that allows for a window period for the lights to come on. The user can turn the lights on during this window period.

Council Member Sellers indicated that his son played baseball this year and acknowledged the extended rainy season. He noted that the baseball organization adopted a schedule that accounted for rainy days. He felt it important for the City to account for rainy days/inclement weather. To reduce the administrative costs, he recommended that staff incorporate alternative schedules such that teams have a number of make up days, or look at alternative scheduling such that teams only pay for the days of use without having the need to have administrative costs associated with rescheduling. He felt that this was an issue that needs to be addressed and that there were ways to move forward equitably.

**Action:**        *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council unanimously (5-0) **Approved** the Proposed Special Event User Fees and Park/Field Rentals.*

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**Action:**      *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council unanimously (5-0) **Adopted** Resolution No. 6044, Establishing Special Event User Fees and Park/Field Rentals.*

**Action:**      *On a motion by Council Member Sellers and seconded by Council Member Tate, the City Council unanimously (5-0) **Directed** Staff to look into the issues raised this evening.*

## ***City Council Action***

### **OTHER BUSINESS:**

#### **24.      CENTENNIAL RECREATION CENTER FITNESS EQUIPMENT PURCHASE –             *Resolution No. 6046***

Director of Recreation and Community Services Rymer informed the Council that it has two reports before it; one being the original staff report and the second a supplemental staff report. He indicated that the construction and furnishing of the Centennial Recreation Center (CRC) is moving forward with October 28, 2006 as a target celebration date. He informed the Council that staff needs to proceed with the purchase of equipment for the CRC. He addressed the three bid packages put together to address the needs of the CRC and the City-YMCA partnership as follows: bid package A is for the strength machines, free weights and plate loaded equipment; bid package B is for the cardio vascular equipment, and bid package C is for the elliptical and stretch trainers. Staff recommends Council approval of the purchase order for the low bids for bid packages A and B to Cybex International and to Advantage Fitness Products. For bid package C, staff recommends approval of a resolution that awards the purchase order to Star Trec, the second lowest bidder, for the purchase of cardiovascular equipment. He said that the YMCA has had an extensive history with this product line. He informed the Council that John Remy, YMCA representative, was in attendance should the Council have questions.

Mayor Kennedy opened the floor to public comment. No comments were offered.

**Action:**      *On a motion by Council Member Carr and seconded by Mayor Pro Tempore Grzan, the City Council unanimously (5-0) **Approved** the Purchase Order of \$82,979.40 to Cybex International for the Purchase of Centennial Recreation Center Strength Machines, Free Weight, and Plate Loaded Equipment.*

**Action:**      *On a motion by Council Member Carr and seconded by Mayor Pro Tempore Grzan, the City Council unanimously (5-0) **Approved** the Purchase Order of \$21,580.38 to Advantage Fitness Products for the Purchase of Centennial Recreation Center Elliptical and Stretch Trainer Equipment.*

**Action:**      *On a motion by Council Member Carr and seconded by Mayor Pro Tempore Grzan, the City Council unanimously (5-0) **Adopted** Resolution No. 6046, Awarding a Purchase*

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*Order in the amount of \$106,5787.68 for Cardiovascular Equipment at the Centennial Recreation Center.*

## ***City Council Action***

### **PUBLIC HEARINGS:**

**25. ZONING TEXT AMENDMENT TO CHAPTER 18.47, AFFORDABLE HOUSING BONUSES AND OTHER INCENTIVES AND CHAPTER 18.55, SECONDARY DWELLING UNITS – *Ordinance No. 1789, New Series***

Planning Manager Rowe presented the staff report, informing the Council that this is a clean up item related to the Housing Element. Staff recommends the amendment of two chapters in the municipal code. Section 18.47 of the Municipal Code is being proposed to be amended in order to comply with changes in the California Government Code; specifically, repealing language contained in the City's municipal code and adopts Section 65915 of the California Government Code by reference. Doing so would allow the City's municipal code be consistent with the Government Code as it is amended. Section 18.55 to be amended to repeal the conditional use permit requirement for secondary dwellings as well as the section that deals with the requirement that secondary dwelling units must have access from a public street.

Mayor Kennedy opened the public hearing. No comments being offered, the public hearing was closed.

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council unanimously (5-0) **Waived** the First and Second Reading of Ordinance No. 1789, New Series.*

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Sellers, the City Council **Introduced** Ordinance No. 1789, New Series by Title Only as follows: **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL AMENDING TITLE 18, THE ZONING CODE UNDER CHAPTER 18.47, THE DENSITY BONUS AND INCENTIVES CHAPTER AND CHAPTER 18.55, THE SECONDARY DWELLING UNIT CHAPTER TO COMPLY WITH THE CALIFORNIA GOVERNMENT CODE APPLICATION ZA-06-07 by the following roll call vote: AYES: Carr, Grzan, Kennedy, Sellers, Tate; NOES: None; ABSTAIN: None; ABSENT: None.***

## ***City Council Action***

### **OTHER BUSINESS:**

**26. MEASURE C BUILDING ALLOTMENT FOR FISCAL YEAR 2009-2010 – *Resolution No. 6045***

Planning Manager Rowe presented the staff report, requesting the Council adopt a resolution approving a total building allotments (248 units) for fiscal year 2009-10; reserving a portion of the total allotment for micro project competition to be held next year, and to award the balance of the building allotments to on-going projects. He indicated that the Planning Commission recommends the Council distribute the remaining 82 of the 248 units as follows: 3 units to be allocated to next year's micro project competition and that the remaining 79 units to be set aside for ongoing projects. Further, that the Council determine that there are 248 units available for fiscal year 2009-10, and that the City uses next year's (2007) Department of Finance estimates to determine the building allotments for fiscal year 2010-11 and how the building allotments would be distributed among the different competition categories.

Council Member Carr noted that it was stated that 8 units would complete the East Main-Thrust project. He inquired whether any of the other projects would get completed with the allocations.

Planning Manager Rowe responded that no other projects would be completed with the allocations. He informed the Council that projects can choose to go through the competition process to secure a greater number beyond 15 units in order to complete their projects. He said that Council policy states that a project can receive up to 15 units in order to complete a project. The policy was adopted by the Council in order to give some assurance that ongoing projects would ultimately be completed. He said that at least through the end of fiscal year 2010, there will be five ongoing projects outside of the downtown. He said that there may be new projects awarded that may not have started construction.

Mayor Kennedy opened the floor to public comment. No comments were offered.

**Action:**        *On a motion by Council Member Tate and seconded by Council Member Carr, the City Council unanimously (5-0) **Adopted** Resolution No. 6045, Approving the Total Building Allotment for Fiscal Year 2009-2010; Reserving a Portion of the Total Allotment for a Micro Project Competition and Awarding the Remaining Allotment to On-Going Projects.*

## ***Redevelopment Agency Action***

### **OTHER BUSINESS:**

#### **27.     URBAN HOUSING COMMUNITIES (UHC) SENIOR HOUSING PROJECT**

Director of Business Assistance and Housing Services Toy presented the staff report on a proposed 49-unit affordable senior housing project. He informed the Agency Board that the Community & Economic Development Committee has reviewed the proposal and recommends Agency participation. Staff recommends preliminary Council commitment to acquire 2.8 acres in the amount of \$3.725 million, less deposits. Further, that staff be given the authority to prepare an exclusive right to negotiate agreement with UHC for 12 months and to negotiate the terms of the Disposition and Development Agreement. He informed the Council that staff will return to the Council on August 23 with agreements for approval.

Chairman Kennedy opened the floor to public comment.

John Bigley, Urban Housing Communities, stated that he is pleased to be in Morgan Hill and pleased to work with staff on the acquisition of the property. He thanked the Agency Board for its time and support on this project.

No further comments were offered.

Agency Member Sellers stated that the Community & Economic Development Committee had the opportunity to hear about this innovative and exciting project, and believe that it would ignite infill development.

**Action:** *On a motion by Agency Member Sellers and seconded by Agency Member Carr, the Agency Board unanimously (5-0): 1) **Authorized** the Executive Director to do Everything Necessary and Appropriate to Purchase and Acquire a 2.8 Acre Site at 98 East Central Avenue from Capogeannis Trust for \$3,725,000, Less Deposits Applied Toward the Purchase Price, Plus Closing and Escrow Costs, for a 49-Unit Senior Housing Project, Including the Assumption of the Purchase Agreement from Urban Housing Communities, Subject to Agency Counsel Review; and 2) to **Negotiate, Prepare, and Execute** an Exclusive Right to Negotiate (ERN) Agreement with Urban Housing Communities, Subject to Agency Counsel Review, to Develop the Site Which will Include the Reimbursement of Their Deposits for the Property Purchase; Subject to Agency Counsel Review; and 3) **Concurred** with Staff Recommended Amendments.*

## ***City Council Action***

### **OTHER BUSINESS:**

**Action:** *It was the consensus of the City Council/Agency Board to consider item 29 at this time.*

#### **29. REQUEST BY POPPY JASPER FILM FESTIVAL FOR CITY CO-SPONSORSHIP**

City Manager Tewes informed the Council that the Public Safety & Community Services Committee has been following up on the Council's direction to develop a process and recommendation for funding non profit organizations in the context of special events. He stated that the Poppy Jasper Film Festival organization is requesting financial assistance from the City. He indicated that the Committee is not recommending the Council move forward with the request for financial assistance at this time because the Committee is hopeful of continuing their review and completing their recommendations within the next 30± days. He stated that the Committee is recommending the Council determine whether or not it should sponsor the Poppy Jasper Film Festival that would allow the advertisement in City publication(s), and defer the request for financial assistance to a later date.

Mayor Kennedy opened the floor to public comment.

Kim Bush, Chair of the Poppy Jasper Film Festival, requested Council co-sponsorship in the form of media sponsorship. She indicated that the film festival has gone international this year with most of the submissions coming from outside of California and 5-6 film makers from countries around the world. She said the City has in place a theater that could house an international film festival. She felt that all pieces are in place to make the downtown a vibrant center. She stated that the Film Festival brings individuals to the downtown who spend time in restaurants and utilize local hotels. Therefore, this is a business move for the Film Festival and would ease their burden this year.

No further comments were offered.

Council Member Sellers felt the City needs to be judicious in its review of sponsorships as the Council should not sponsor just any group. As this is a broad community benefit for those participating, and the event would positively promote the City of Morgan Hill throughout the world, he felt it made sense to move forward with sponsorship this evening. He felt the City needs to be careful with the funds it allocates. He appreciated the fact the Committee would be reviewing his concern about avoiding precedents.

**Action:** *On a motion by Council Member Sellers and seconded by Council Member Grzan, the City Council unanimously (5-0): 1) Agreed to **Co-sponsor** the Poppy Jasper Film Festival, Allowing Advertising in the City's Publications (media sponsorship); and 2) **Deferred** the Action on the Request for Financial Assistance Until the Committee has Completed its Review and Recommendation for a Process for Considering Similar Requests.*

## ***City Council and Redevelopment Agency Action***

### **OTHER BUSINESS:**

#### **28. DOWNPAYMENT ASSISTANCE PROGRAM**

Director of Business Assistance and Housing Services Toy presented the staff report; identifying the goals, objectives, and key points of the downtown assistance program as prepared by the five interns from the Goldman School of Public Policy at the University of Berkeley. He identified the five interns: Sundar Chari, Christine Fry, Heather Kinlaw, Matt Reed and Laura Yang.

Council/Agency Member Sellers indicated that the Community & Economic Development Committee reviewed the parameters of the program and stated its support. He indicated that the five graduate students did a great job on this program and that they were enthusiastic about their assignment; looking at a lot of issues.

Mayor/Chairman Kennedy opened the floor to public comment. No comments were offered.

**Action:** *On a motion by Council/Agency Member Sellers and seconded by Council/Agency Member Tate, the City Council/Agency Board unanimously (5-0) **Authorized** the City*

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*Manager/Executive Director to Develop and Implement the Down Payment Assistance Program for City Employees Per the Program Parameters as Recommended by the Council's Community and Economic Development Committee (C&ED).*

Council Member Carr requested that staff thank the five interns for all the work they put toward this program.

## ***City Council Action***

### **OTHER BUSINESS:**

#### **30. VOTING DELEGATE TO THE 2006 LEAGUE OF CALIFORNIA CITIES ANNUAL CONFERENCE**

Council Services & Records Manager Torrez presented the staff report, informing the Council that the California League of California Cities' Annual Conference will take place September 6-9, 2006 in San Diego, California. At the annual conference, League Members vote on conference resolutions that improve the quality, responsiveness and vitality of local government in California. The League's bylaws authorize each City to have a vote on matters affecting municipal or League policies. She informed the Council that the business meeting will be held on Saturday, September 9. She requested the Council appoint a primary and alternate delegate to the 2006 League of California Cities annual conference. She indicated that this year, the League is also authorizing the appointment of a second alternate in order to plan for unforeseen situations.

Council Member Carr indicated a willingness to take on the primary voting delegate responsibility.

**Action:** *On a motion by Council Member Sellers and seconded by Mayor Kennedy, the City Council unanimously (5-0): 1) **Appointed** Council Member Carr as the City's Primary Voting Delegate to the League of California Cities' Annual Conference; and 2) **Directed** the City Clerk to Complete the Voting Delegate Form and **Forward** said form to the League of California Cities.*

#### **21. REPORT ON POSSIBLE BALLOT MEASURE TO AMEND THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM ORDINANCE (MEASURE C) FOR DOWNTOWN MIXED USE PROJECTS - Continued**

City Manager Tewes indicated that the City Attorney and that the Community Development Director have drafted an ordinance that reflects the Council's actions of this evening and distributed the ordinance to the Council. He noted the Council adopted a resolution setting priorities for the filing of arguments; however, the Council did not designate the Council members who would be authorized to file the arguments. He recommended Council discussion and determination as to who will sign the argument.

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Council Member Sellers stated that he would agree to draft/sign the argument. He recommended that all five Council members be authorized to sign the ballot argument. He felt that a committee could be established to move the measure forward, and that there may be a combination of community members-leaders as well as elected members who would sign the argument.

City Manager Tewes informed the Council that any citizen can file for the right to sign an argument. However, the Council can establish priorities for arguments by resolution. He indicated that it has been the Council's practice that when the City sponsors a measure that all Council members are listed as signers of the argument. Therefore, it would be appropriate to list all Council members. He said that one or two council members could cede their signing rights to a citizen. However, the resolution would be reserving the right of council members to have priority in signing the argument.

**Action:**        *On a motion by Council Member Sellers and seconded by Council Member Carr, the City Council unanimously (5-0) **Agreed** to Designate All Council Members as Authors/Signers of the Argument in Favor of the City Ballot Measure.*

#### **FUTURE COUNCIL-INITIATED AGENDA ITEMS**

No items were identified.

#### **ADJOURNMENT**

There being no further business, Mayor/Chairman Kennedy adjourned the meeting at 10:36 p.m.

#### **MINUTES RECORDED AND PREPARED BY:**

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**IRMA TORREZ, CITY CLERK/AGENCY SECRETARY**





## ***REDEVELOPMENT AGENCY***

***MEETING DATE: MAY 24, 2006***

**Agenda Item # 26**

**Prepared By:**

**Special Assistant to the  
City Manager**

**Submitted By:**

**City Manager**

### **LEADERSHIP MORGAN HILL – 2006 CLASS PROJECT**

#### **RECOMMENDED ACTION(S):**

Accept second public art piece project, location and plaque for the new library.

#### **EXECUTIVE SUMMARY:**

2006 Leadership Morgan Hill Class Representatives presented on August 14, 2006 to the Library, Culture & Arts Commission a proposal providing a second public outdoor art piece for the new library. Leadership Class representatives will be presenting the proposed statue tonight for Council's approval.

Artwork selection was based on three key criteria chosen by the class:

1. Display Reading
2. Appropriate Size/Substance
3. Reflect Diversity

The LCAC fully endorsed the proposal for RDA Board consideration. Leadership Class 2006 will fund the art piece and installation costs. Once the art piece is permanently installed, the Agency will assume responsibility for the piece including maintenance and liability. Please refer to the attached memo from the Leadership Morgan Hill Class of 2006 regarding the second chosen piece and wording of the plaques. Leadership Class 2006 representatives will propose a specific site location for the statue to the RDA Board for your consideration and approval.

**FISCAL IMPACT:** No fiscal impact projected at this time. Installation may require minor landscape revisions which can be supported through the CIP Project budget.



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** *August 23, 2006*

### **HEARING FOR EXEMPTION TO UNDERGROUNDING UTILITIES – 16215 CHURCH ST**

#### **RECOMMENDED ACTION(S):**

1. Open and close Hearing.
2. Grant exemption to the requirement to underground utilities with payment of in lieu fees for the proposed development at 16215 Church St.

#### **EXECUTIVE SUMMARY:**

A single unit development at 16215 Church Street was conditioned to underground the overhead utility lines along their property frontage on Church Street. The development has 50 linear feet of frontage along Church Street. Pursuant to City Code Section 12.02.110 (attached), the home owner is requesting exemption from the requirement to underground the overhead utility lines and request to pay an in-lieu fee instead.

Staff supports this request on the basis that the installation of these improvements on such a small scale would not be cost effective and could be installed more efficiently as a portion of a larger installation of improvements at a later date.

#### **FISCAL/RESOURCE IMPACT:**

In-lieu fees totaling \$5,300 will be placed in the Undergrounding Fund #350-37649 if this exemption is approved. No additional staff resources will be required as a result of this exemption.

**Agenda Item #** 27

**Prepared By:**

**Junior Engineer**

**Approved By:**

**Public Works Director**

**Submitted By:**

**City Manager**



## **CITY COUNCIL STAFF REPORT**

**MEETING DATE:** August 23, 2006

### **ZA-05-14/DA-05-13: JARVIS - SO. VALLEY DEVELOPERS**

#### **RECOMMENDED ACTIONS:**

1. Open/close Public Hearing
2. Adopt Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program (MMRP)
3. Waive the First and Second Reading of Zoning Amendment Ordinance
4. Introduce Zoning Amendment Ordinance
5. Waive the First and Second Reading of Development Agreement Ordinance
6. Introduce Development Agreement Ordinance

**EXECUTIVE SUMMARY:** The applicant is requesting approval of a development agreement, Planned Unit Development (PUD) overlay, and precise development plan for a 229-unit multi-family project referred to as Madrone Plaza. The project site is approximately 15.8 acres in size, and is located at the southeast corner of Cochrane Rd. and Monterey Rd. in an R3 zoning district. Madrone Plaza is a joint venture development between South Valley Developers (SVD) and South County Housing (SCH). SVD will develop the western 9.3 acres of the site with 134 townhome and condominium units, while SCH will develop the eastern 6.5 acres with 95 townhomes and modified setback dwellings.

The purpose of the PUD overlay request is to allow flexibility in the City's site development standards in exchange for open space and affordable housing. Of the 134 units SVD will be constructing, up to 18 will be low and median below market rate (BMR) units and 14 will be moderate, non-restricted units. SCH will be providing 66 low and median BMRs of their 95 units plus five moderate units. In addition, large open space areas with both passive and active recreational amenities will be provided. In exchange for these amenities, the applicant is requesting approval of the following items as part of the PUD: 1) three-story buildings (up to 40 ft tall), 2) reduction in setbacks, 3) reduction in lot size/dimensions, and 4) provision of 26 modified setback dwellings. An expanded initial study was prepared for the project and appropriate mitigation measures were identified to reduce potential impacts to a less than significant level.

The applicant is also requesting approval of the project development agreement. Project development agreements are required as a formal contract between the developer and the City; it formalizes the commitments made during the Measure C process and establishes the development schedule for the project. The project specific commitments are identified in Paragraph 14 of the development agreement, and the development schedule is contained in Exhibit B.

At their August 8 meeting, the Commission unanimously recommended approval of the Mitigated Negative Declaration/MMRP and the development agreement. However, the Commission expressed concern regarding the degree of flexibility being requested under the PUD application and the precedent it could set for future residential developments (refer to the Aug. 8 Commission staff report for details regarding the exceptions). To distinguish this project from other multi-family projects, the Commission clearly established the following: 1) Madrone Plaza is a PUD, not RPD (Residential Planned Development) whereby greater flexibility in the development standards is allowed; 2) the project is a joint venture development with a non-profit organization; and 3) a significant level of affordable housing units will be provided by the project: 18 deed restricted units plus 14 non-restricted units by SVD and 66 deed restricted units plus 5 non-restricted units by SCH, representing 75% of SCH's allotments. With these distinctions, the Commission unanimously recommended approval of the PUD and precise development plan.

**FISCAL/RESOURCE IMPACT:** No budget adjustment required.

Agenda Item # 28

Prepared By:

Senior Planner

Approved By:

CCD Director

Submitted By:

City Manager

**ORDINANCE NO.     , NEW SERIES**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF  
MORGAN HILL APPROVING A DEVELOPMENT AGREEMENT  
FOR APPLICATION MC-04-22: JARVIS – SOUTH VALLEY  
DEVELOPERS (APNs 726-25-076 & -077) (DA-05-13: JARVIS-SOUTH  
VALLEY DEVELOPERS)**

**THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY  
ORDAIN AS FOLLOWS:**

**SECTION 1.** The City Council has adopted Resolution No. 4028 establishing a procedure for processing Development Agreements for projects receiving allotments through the Residential Development Control System, Title 18, Chapter 18.78 of the Municipal Code.

**SECTION 2.** The California Government Code Sections 65864 thru 65869.5 authorizes the City of Morgan Hill to enter into binding Development Agreements with persons having legal or equitable interests in real property for the development of such property.

**SECTION 3.** The Planning Commission, pursuant to Chapter 18.78.125 of the Municipal Code, Resolution No. 05-17 adopted March 1, 2005, and Resolution No. 06-60 adopted June 13, 2006, has awarded allotments to a certain project herein after described as follows:

| <u>Project</u>                             | <u>Total Dwelling Units</u>    |
|--|--------------------------------|
| MC-04-22: Jarvis – South Valley Developers | 36 units (Fiscal Year 2006-07) |
|  | 13 units (Fiscal Year 2007-08) |
|  | 15 units (Fiscal Year 2008-09) |
|  | 14 units (Fiscal Year 2009-10) |

**SECTION 4.** References are hereby made to certain Agreements on file in the office of the City Clerk of the City of Morgan Hill. These documents to be signed by the City of Morgan Hill and the property owner set forth in detail and development schedule, the types of homes, and the specific restrictions on the development of the subject property. Said Agreement herein above referred to shall be binding on all future owners and developers as well as the present owners of the lands, and any substantial change can be made only after further public hearings before the Planning Commission and the City Council of this City.

**SECTION 5.** The City Council hereby finds that the development proposal and agreement approved by this ordinance is compatible with the goals, objectives, policies, and land uses designated by the General Plan of the City of Morgan Hill.

**SECTION 6.** Authority is hereby granted for the City Manager to execute all development agreements approved by the City Council during the Public Hearing Process.

**SECTION 7.** Severability. If any part of this Ordinance is held to be invalid or inapplicable to any situation by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance or the applicability of this Ordinance to other situations.

**SECTION 8.** Effective Date Publication. This ordinance shall take effect thirty (30) days after the date of its adoption. The City Clerk is hereby directed to publish this ordinance pursuant to §36933 of the Government Code.

The foregoing ordinance was introduced at the regular meeting of the City Council of the City of Morgan Hill held on the     Day of August 2006, and was finally adopted at a regular meeting of said Council on the     Day of August 2006, and said ordinance was duly passed and adopted in accordance with law by the following vote:

**AYES:            COUNCIL MEMBERS:**  
**NOES:           COUNCIL MEMBERS:**  
**ABSTAIN:       COUNCIL MEMBERS:**  
**ABSENT:        COUNCIL MEMBERS:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
**Irma Torrez, City Clerk**

\_\_\_\_\_  
**Dennis Kennedy, Mayor**

**⌘   CERTIFICATE OF THE CITY CLERK   ⌘**

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA,** do hereby certify that the foregoing is a true and correct copy of Ordinance No. , New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the     Day of August 2006.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**

**ORDINANCE NO. , NEW SERIES**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL APPROVING THE ESTABLISHMENT OF A R3/PLANNED UNIT DEVELOPMENT ZONE AND A PRECISE DEVELOPMENT PLAN FOR A 229-UNIT MULTI-FAMILY PROJECT LOCATED ON A 15.8-ACRE SITE AT THE SOUTHEAST CORNER OF COCHRANE ROAD AND MONTEREY ROAD (APNs 726-25-076 & -077)/(ZA-05-14: JARVIS – SOUTH VALLEY DEVELOPERS)**

**THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY ORDAINS AS FOLLOWS:**

- SECTION 1.** The proposed zoning amendment is consistent with the Zoning Ordinance and the General Plan.
- SECTION 2.** The zone change is required in order to serve the public convenience, necessity and general welfare as provided in Section 18.62.050 of the Municipal Code.
- SECTION 3.** An environmental initial study has been prepared for this application and has been found complete, correct and in substantial compliance with the requirements of California Environmental Quality Act. A mitigated Negative Declaration will be filed.
- SECTION 4.** The City Council finds that the proposed PUD Overlay District is consistent with the criteria specified in Chapter 18.30 of the Morgan Hill Municipal Code.
- SECTION 5.** The City Council hereby approves an amendment to the City Zoning Map as shown in the attached Exhibit “A”.
- SECTION 6.** The City Council hereby approves a precise development plan as contained in that certain series of documents date stamped August 8, 2006, on file in the Community Development Department, entitled "Madrone Plaza PUD" prepared by EDI Architecture, Inc. These documents, as amended by site and architectural review, show the location and sizes of all lots in this development and the location and dimensions of all proposed buildings, vehicle and pedestrian circulation ways, recreational amenities, parking areas, landscape areas and any other purposeful uses on the project.
- SECTION 7.** As part of the PUD and precise development plan, the City Council approves three story structures up to 40 ft in height as illustrated on the representative building elevations and reduced setbacks, lot sizes, and lot dimensions as identified on the precise development plan.

- SECTION 8.** The City Council approves up to 26 modified setback dwellings along the Jarvis Drive and Butterfield Boulevard project frontages and around the open space area located on the 6.5-acre South County Housing portion of the site. All modified setback dwellings shall be subject to compliance with Ordinance No. 1641, N.S. and Ordinance No. 1700, N.S.
- SECTION 9.** If building permits for the 26 modified setback dwellings are not pulled by June 30, 2007, the units shall either be physically attached **OR** the applicant shall obtain Council approval for the extension of Ordinance No. 1700, N.S., allowing the 26 FY 2007-08 allotments to be constructed as modified setback dwellings.
- SECTION 10.** Future building additions are prohibited in any yard (front, rear, side) for which a reduced setback was approved by this PUD, unless the additions comply with the site development standards of the R3 zoning district.
- SECTION 11.** Approval of this PUD and precise development plan shall not establish a precedent for future residential projects for the following reasons:
- a. The Madrone Plaza project is a PUD (Planned Unit Development), not an RPD (Residential Planned Development), whereby greater flexibility in the development standards is allowed;
  - b. The project is a joint venture development with a non-profit organization; and
  - c. A significant level of affordable housing units will be provided by the project: 18 deed restricted units plus 14 non-restricted units by South Valley Developers and 66 deed restricted units plus 5 non-restricted units by South County Housing, representing 75% of South County Housing's allotments.
- SECTION 12.** Severability. If any part of this Ordinance is held to be invalid or inapplicable to any situation by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance or the applicability of this Ordinance to other situations.
- SECTION 13.** Effective Date; Publication. This Ordinance shall take effect thirty (30) days after the date of its adoption. The City Clerk is hereby directed to publish this ordinance pursuant to §36933 of the Government Code.

The foregoing ordinance was introduced at the regular meeting of the City Council of the City of Morgan Hill held on the     Day of August 2006, and was finally adopted at a regular meeting of said Council on the     Day of August 2006, and said ordinance was duly passed and adopted in accordance with law by the following vote:

**AYES: COUNCIL MEMBERS:**  
**NOES: COUNCIL MEMBERS:**  
**ABSTAIN: COUNCIL MEMBERS:**  
**ABSENT: COUNCIL MEMBERS:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
Irma Torrez, City Clerk

\_\_\_\_\_  
Dennis Kennedy, Mayor

**∞ CERTIFICATE OF THE CITY CLERK ∞**

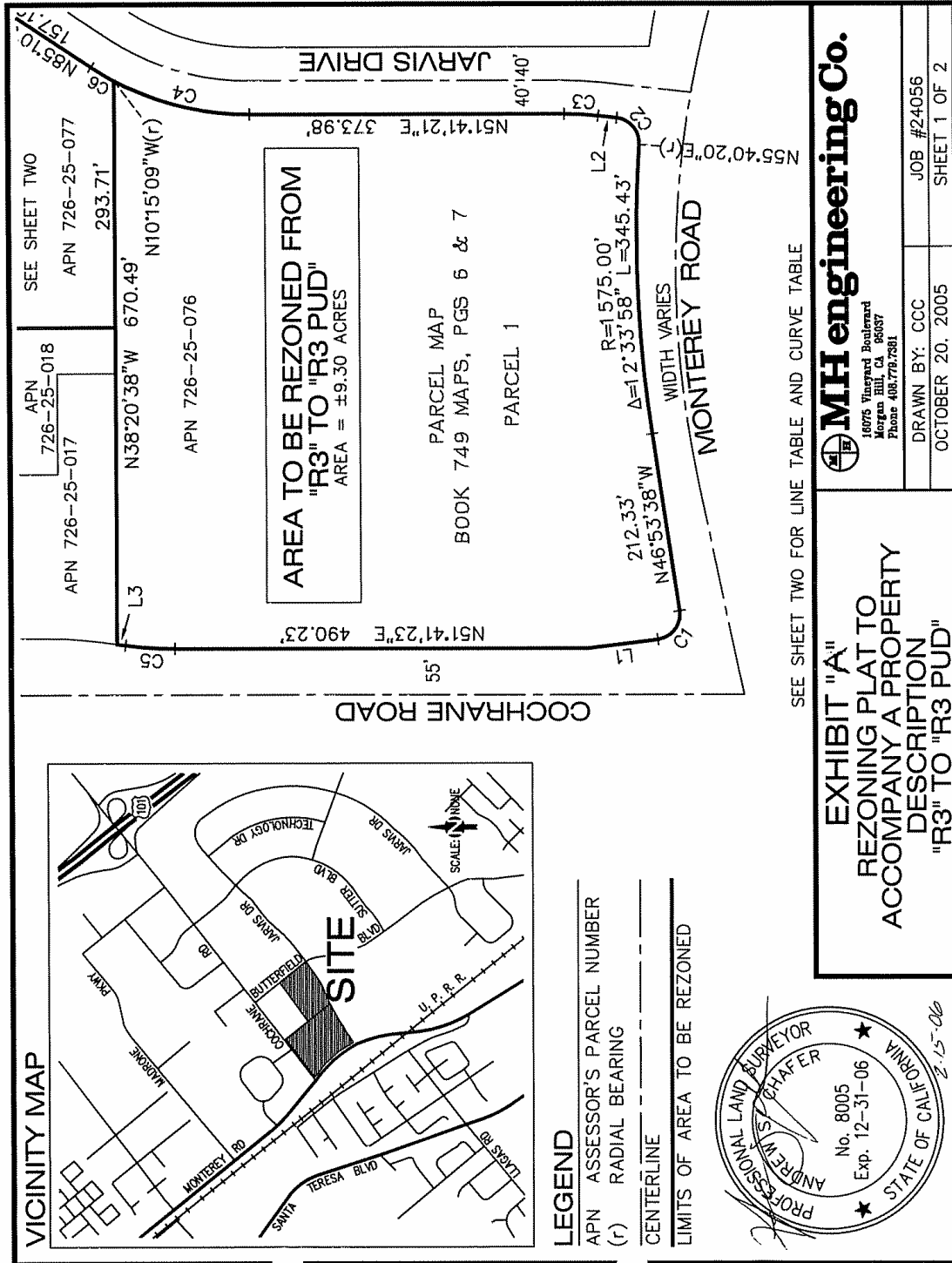
**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA,** do hereby certify that the foregoing is a true and correct copy of Ordinance No. , New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the Day of August 2006.

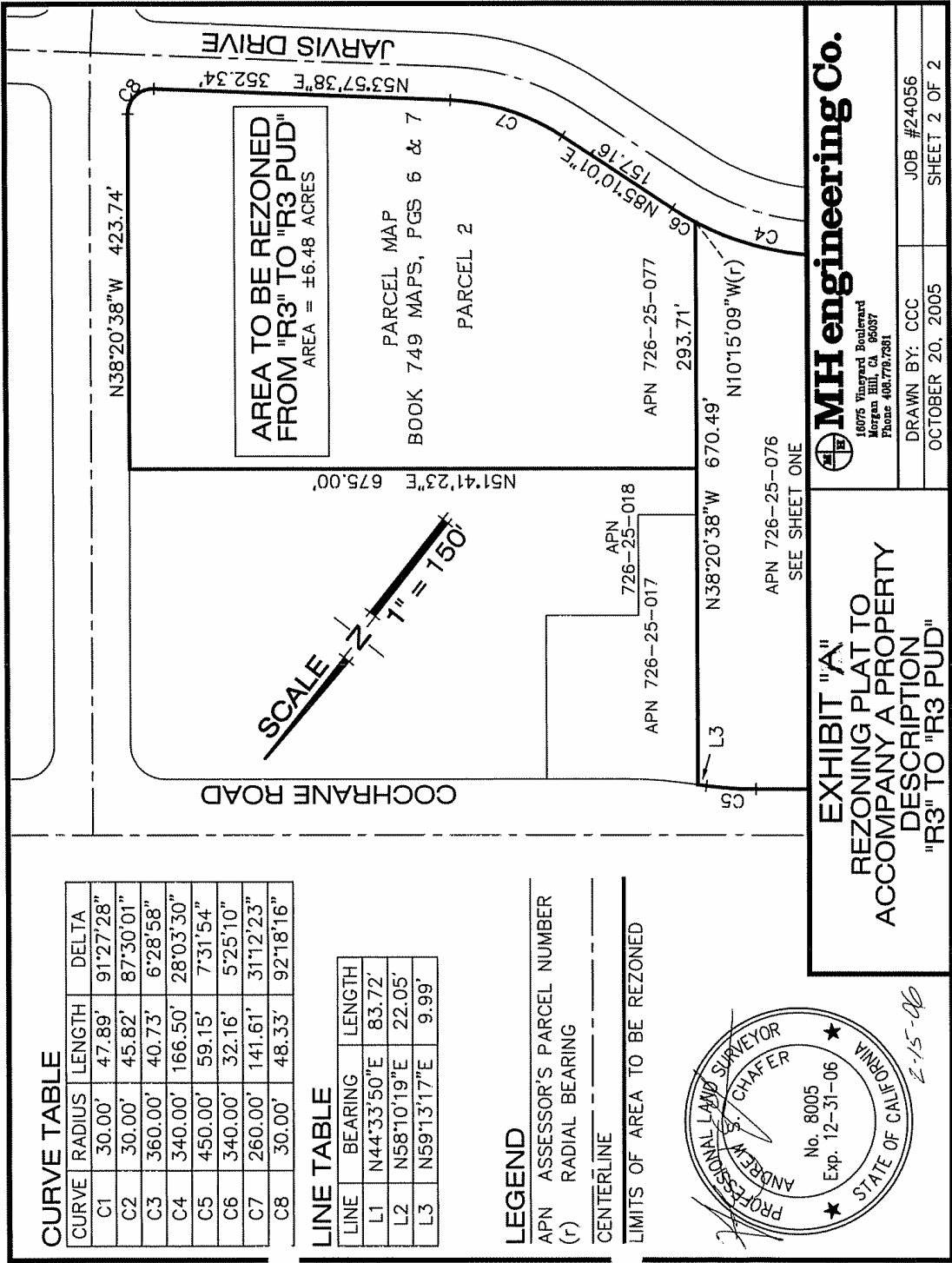
**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**







**EXHIBIT "A"**

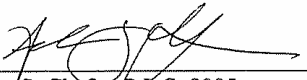
**PROPERTY DESCRIPTION OF AREA  
TO BE REZONED FROM "R3" TO "R3 PUD"**

All that real property situated in the City of Morgan Hill, County of Santa Clara, State of California and being more particularly described as follows:

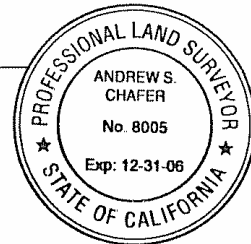
All of Parcel 1 & 2, as said parcels are shown on that certain Parcel Map filed for record on May 29, 2002 in Book 749 of Maps, at pages 6 and 7, at the Office of the Recorder of Santa Clara County and containing an area of 15.78 acres, more or less.

**See Exhibit "B" attached hereto and made a part hereof.  
End of Description.**

This description was prepared by me or under my direction in conformance with the requirements of the Land Surveyors' Act.

  
\_\_\_\_\_  
Andrew S. Chafer, P.L.S. 8005  
Expires: 12/31/2006

2-15-06  
Date



Prepared by the firm of MH engineering Company, Morgan Hill, CA  
K: 2004 2465067-4-0  
Last printed 2-15-2006 10:40:00 AM



## CITY COUNCIL STAFF REPORT

**MEETING DATE:** August 23, 2006

### DA-06-03: JARVIS - SOUTH COUNTY HOUSING

#### RECOMMENDED ACTIONS:

1. Open/close Public Hearing
2. Waive the First and Second Reading of Development Agreement Ordinance
3. Introduce Development Agreement Ordinance

**EXECUTIVE SUMMARY:** The applicant is requesting approval of a development agreement for 95 dwelling units to be constructed as part of a larger 229-unit multi-family project referred to as Madrone Plaza. The Madrone Plaza project is a joint venture development between South Valley Developers (SVD) and South County Housing (SCH). SVD will develop the western 9.3 acres of the site with 134 townhome and condominium units. SCH will develop the eastern 6.5 acres with 95 units (69 townhomes and 26 modified setback dwellings). SCH was awarded the 95 building allotments in 2006: 54 units for FY 2007-08 and 41 units for FY 2008-09.

The applicant is requesting approval of the project development agreement. Project development agreements are required as a formal contract between the developer and the City. The development agreement formalizes the commitments made during the Measure C process and establishes the development schedule for the project. The project specific commitments are identified in Paragraph 14 of the development agreement, and the development schedule is contained in Exhibit B.

At their August 8 meeting, the Commission unanimously recommended approval of the development agreement with one modification to the development schedule. The Commission recommended (and the applicant agreed) to push forward the deadlines for final map submittal, building permit submittal and obtaining building permits for the first 26 dwelling units. The purpose for this change is to ensure that the 26 proposed modified setback dwellings would be constructed prior to the expiration of Ordinance No. 1700, N.S., which extended the original ordinance allowing modified setback dwellings. Per Ordinance No. 1700, N.S., *"Only projects for which RDCS allotments were awarded for Fiscal Year 2006-07 and earlier, and also allotments for which building permits are issued by June 30, 2007 are eligible for the modified setback dwellings, except as provided in Sections 15 through 19 of this Ordinance."* Ordinance No. 1700, N.S. goes on to state, *"This Ordinance may be extended to allow modified setback dwellings for projects for which RDCS allotments were awarded for Fiscal Year 2007-08, and also allotments for which building permits are issued by June 30, 2008, subject to the approval of the City Council."*

SCH proposes to construct the 26 modified setback dwellings from their 54 FY 2007-08 allotments. In order to comply with the provisions of Ordinance No. 1700, SCH intends to pull all 26 building permits by June 30, 2007. However, in the event they are unable to pull the 26 building permits by June 30, 2007, the applicant will either need to physically attach the units or request that the City Council extend the provisions of Ordinance No. 1700 under separate action.

**FISCAL/RESOURCE IMPACT:** No budget adjustment required.

Agenda Item # 29

Prepared By:

Senior Planner

Approved By:

CCD Director

Submitted By:

City Manager

**ORDINANCE NO. , NEW SERIES**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF  
MORGAN HILL APPROVING A DEVELOPMENT AGREEMENT  
FOR APPLICATION MC-05-02: JARVIS – SOUTH COUNTY  
HOUSING (APNs 726-25-076 & -077) (DA-06-03: JARVIS – SOUTH  
COUNTY HOUSING)**

**THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY ORDAIN  
AS FOLLOWS:**

**SECTION 1.** The City Council has adopted Resolution No. 4028 establishing a procedure for processing Development Agreements for projects receiving allotments through the Residential Development Control System, Title 18, Chapter 18.78 of the Municipal Code.

**SECTION 2.** The California Government Code Sections 65864 thru 65869.5 authorizes the City of Morgan Hill to enter into binding Development Agreements with persons having legal or equitable interests in real property for the development of such property.

**SECTION 3.** The Planning Commission, pursuant to Title 18, Chapter 18.78.125 of the Municipal Code and Resolution No. 06-18, adopted February 14, 2006, has awarded allotments to a certain project herein after described as follows:

| <u>Project</u>                          | <u>Total Dwelling Units</u>    |
|---|--------------------------------|
| MC-05-02: Jarvis – South County Housing | 54 units (Fiscal Year 2007-08) |
| 41 units (Fiscal Year 2008-09)          |                                |

**SECTION 4.** References are hereby made to certain Agreements on file in the office of the City Clerk of the City of Morgan Hill. These documents to be signed by the City of Morgan Hill and the property owner set forth in detail and development schedule, the types of homes, and the specific restrictions on the development of the subject property. Said Agreement herein above referred to shall be binding on all future owners and developers as well as the present owners of the lands, and any substantial change can be made only after further public hearings before the Planning Commission and the City Council of this City.

**SECTION 5.** The City Council hereby finds that the development proposal and agreement approved by this ordinance is compatible with the goals, objectives, policies, and land uses designated by the General Plan of the City of Morgan Hill.

**SECTION 6.** Authority is hereby granted for the City Manager to execute all development agreements approved by the City Council during the Public Hearing Process.

**SECTION 7.** Severability. If any part of this Ordinance is held to be invalid or inapplicable to any situation by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance or the applicability of this Ordinance to other situations.

**SECTION 8.** Effective Date Publication. This ordinance shall take effect thirty (30) days after the date of its adoption. The City Clerk is hereby directed to publish this ordinance pursuant to §36933 of the Government Code.

The foregoing ordinance was introduced at the regular meeting of the City Council of the City of Morgan Hill held on the     Day of August 2006, and was finally adopted at a regular meeting of said Council on the     Day of August 2006, and said ordinance was duly passed and adopted in accordance with law by the following vote:

**AYES:**            **COUNCIL MEMBERS:**  
**NOES:**           **COUNCIL MEMBERS:**  
**ABSTAIN:**      **COUNCIL MEMBERS:**  
**ABSENT:**       **COUNCIL MEMBERS:**

**ATTEST:**

**APPROVED:**

\_\_\_\_\_  
**Irma Torrez, City Clerk**

\_\_\_\_\_  
**Dennis Kennedy, Mayor**

∞ **CERTIFICATE OF THE CITY CLERK** ∞

**I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA,** do hereby certify that the foregoing is a true and correct copy of Ordinance No. , New Series, adopted by the City Council of the City of Morgan Hill, California at their regular meeting held on the     Day of August 2006.

**WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
**IRMA TORREZ, City Clerk**



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

**Agenda Item # 30**

**Submitted By:**

**City Manager**

### **MANAGEMENT AUDIT OF DEVELOPMENT PROCESSING SERVICES**

#### **RECOMMENDED ACTION(S):**

1. Consider presentation of the Development Processing Services/Customer Services Study by Joe Colgan; and
2. Direct City Manager to prepare an implementation plan for review by the Community and Economic Development Committee and subsequent adoption by the Council.

**EXECUTIVE SUMMARY:** In order to evaluate Development Processing Services from a customer service point of view, the City contracted with Colgan Consulting Corporation to conduct a management audit, including interviews with applicants.

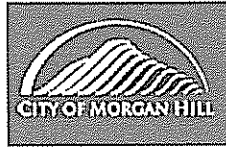
In 2002, Mr. Joe Colgan conducted a related management audit that focused on processes and opportunities for improved efficiency and effectiveness. In the 2006 review, Mr. Colgan was asked to focus on the impact of the City's regulations, processes, and staff involvement on those who apply for various development approvals.

Mr. Colgan concludes his study with a series of goals and objectives including:

- City should take an active role in defining its image in the development community.
- City should re-evaluate certain regulations to reduce obstacles to development.
- City should provide applicants with written customer service policies as well as written materials about the development review process.
- City should evaluate performance standards and systems to monitor customer service.
- City should identify and re-evaluate processing fees in the light of the benefits received by the applicant, even though they may be justified by the City's costs.

It has been the Council's practice to hear the report and recommendation from independent sources, and then ask staff to prepare its own response and implementation schedule for subsequent Council consideration.

**FISCAL IMPACT:** The costs of the Study were budgeted in FY 06 in the amount of \$36,600, including expenses. Costs of implementation will be identified in subsequent staff reports.

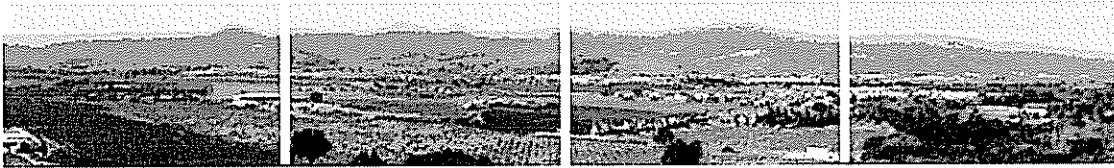


*City Of Morgan Hill*

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*Development Processing Services/  
Customer Service Study Report*

*July 2006*



**Colgan Consulting Corporation**  
**2740 Fulton Avenue, Suite 101**  
**Sacramento, CA 95821**  
**(916) 489-4860**



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## **EXECUTIVE SUMMARY**

This study updates the Development Processing Services Study conducted in 2002, with a particular focus on customer service issues. Section I is a brief introduction describing the scope of this study which includes:

- Evaluating the effectiveness of measures taken to implement recommendations from the earlier study
- Conducting interviews with selected customers, City Council members and City staff
- Reviewing project files, performance measures, and activity reports
- Recommending goals and objectives to address issues identified in this study
- Developing an action plan for implementation

**Implementation of 2002 Study Recommendations.** Section II of this report reviews the City's progress in implementing the recommendations of the 2002 study. A May 2005 status report by the City Manager's office indicated that 27 of 39 recommendations had been implemented, with five deferred due to budget constraints and seven in process. Since the time of that report, one additional recommendation (filling the Senior Planner vacancy) has been implemented.

This report recommends additional steps to be taken with respect to some earlier recommendations, including completion of updated architectural and site design guidelines and others that would improve the measurement of staff performance in areas that affect customer service.

**Customer Interviews.** Section III summarizes the results of customer interviews conducted for this study. The Consultant invited 35 past customers of development processing services to participate in interviews. Those customers were believed to represent a mix of positive and negative opinions regarding the process. Of those invited, 16 individuals agreed to be interviewed. The interviewees included residential and commercial developers, architects, real estate brokers and business owners, as well as representatives of the Morgan Hill Downtown Association and the Chamber of Commerce Economic Development Committee. Some key results of the interviews are summarized briefly below.

- Large developers, and those with extensive experience in Morgan Hill had a very favorable opinion of the City as a place to do business. They believe perceptions of Morgan Hill as unfriendly to business are outdated,

but some noted that Measure C may contribute to a some negative impressions of the City in both the residential and non-residential sectors of the industry, even though it affects only residential development directly.

- Inexperienced applicants and those with smaller projects were more likely to experience the development review process as difficult, and to report problems such as poor communication among departments, unreasonable conditions, or changes in project requirements.
- Morgan Hill's impact fees for commercial projects were mentioned in several interviews as an obstacle to development in the City.
- City-initiated PUD zoning on commercial properties in Morgan Hill creates delays and adds costs in the development review process.
- The Architectural and Site Review Board has made a serious effort to avoid delaying projects, but the site review process does increase costs and adds to review times.
- The most common complaints about the development review process are essentially the same as those encountered by the Consultant in other cities: it takes too long, applicants get incomplete or conflicting information from staff, and requirements change as the process proceeds.

**Case Studies.** To clarify some of the issues raised by customers, this report followed up on several projects where a customer expressed dissatisfaction with some aspect of the City's process. These case studies are intended, as much as possible, to determine whether or not the customer's complaint was valid, and if so, how similar situations can be avoided in the future. Brief summaries of those case studies follow.

- The developer of one commercial project reported that he was not told about the need for a PUD plan for a year after his application was filed, and that a new requirement for a traffic signal was imposed late in the process. The Consultant's review of the project files found that the need for the PUD plan was identified very early in the process, and the traffic signal was required as a result of environmental review, and that requirement was also documented early in the project.
- Another developer objected to what he perceived as a very negative tone in the Planning Division's response to his inquiry about developing a parcel in downtown Morgan Hill. In the Consultant's judgment, the response was factual and businesslike. The only negative aspect of it was a statement that Planning probably would not support a rezoning of the parcel in

question--information that is important to the applicant in deciding whether or not to pursue rezoning.

- In a recent case involving a conditional use permit for expansion of an existing church and the addition of a child care center, the applicant objected to the extent of off-site work on the adjacent street that was recommended by Engineering as a condition of approval. In a field review, the Public Works Director determined that some of the work originally specified in the condition was not necessary. This case highlights the issues that can arise with respect to interpretation of standards, and illustrates the need for procedures that allow applicants to challenge such recommendations before proceeding to a public hearing. Such measures are recommended in subsequent sections of the report.

**Goals and Objectives.** Section IV of the report presents a series of goals and objectives intended to address the issues identified in the study. The key points are summarized below.

- Morgan Hill's Image. The City should take an active role in defining its image, rather than allowing uninformed opinions to go unchallenged. The City has plenty of recent commercial development success stories to publicize. That could be done by hiring a public relations consultant, or by organizing an in-house PR effort.
- Impact of Regulations. The City should consider whether to re-evaluate certain development regulations in an effort to reduce obstacles to development. The report identifies three possibilities: (1) use of PUD zoning on commercial properties; (2) the requirement for ARB approval of virtually all development projects; and, (3) the requirement that a new tentative subdivision map be file for each allotment of units under Measure C.
- Improving Customer Service. A key recommendation of this study is that the City should provide applicants with written customer service policies as well as more complete and user-friendly written information about the development review process. That information is especially important to inexperienced applicants. This study also recommends that the City make an effort to encourage applicants to take advantage of formal pre-application reviews. The one-stop permit center, which will be created after completion of the new library building, should have a substantial positive effect customer service.
- Improving Process Management. The key goals and objectives with respect to process management focus on evaluating the role of performance standards and performance measurement, and putting systems in place to

monitor performance. The Tidemark system has the potential to play a major role in that effort if it is ever fully implemented in Planning and Engineering.

- Impact Fees. The goals and objectives related to impact fees include determining how Morgan Hill's impact fees compare with those of nearby cities, and whether or not those fees represent an unacceptable obstacle to the City's broader development goals. Some impact fee issues may be resolved by revising the method used to set fees for individual development projects. Impact fee schedules should be made readily available to applicants, and fee estimate sheets provided by engineering should be made more user friendly.
- Processing Fees. The City should seek to identify and re-evaluate processing fees that may be excessive relative to the benefit received by the applicant, even though they are justified by the City's cost. Of particular concern is the fee for pre-application review of development projects, which may be discouraging applicants from seeking pre-application review.

## *I. INTRODUCTION*

This study updates an earlier study of Morgan Hill's development processing services prepared by MAXIMUS, Inc. in 2002. The MAXIMUS study addressed the organization, operations, and staffing of the departments and divisions involved in providing those services. The present study by Colgan Consulting Corporation is intended to evaluate progress since the 2002 study with a particular focus on customer service, and to investigate whether or not the City's development approval process creates unnecessary obstacles to economic development. Joseph Colgan, of Colgan Consulting Corporation was previously employed by MAXIMUS and served as the project manager for the 2002 study as well as for the current study.

The scope of this study includes:

- Evaluating the effectiveness of measures taken to implement recommendations from the earlier study
- Conducting interviews with selected customers, City Council members and City staff
- Reviewing project files, performance measures, and activity reports
- Recommending goals and objectives to address issues identified in this study
- Developing an action plan for implementation

Negative feedback is an important source of information in this type of study, and customers invited to be interviewed for this study included a number of individuals who have expressed dissatisfaction with some aspect of the City's development approval process. Customer dissatisfaction can arise from many sources, and may or may not reflect problems with the development approval process or poor performance by staff. In cases where interviewees reported a negative experience with Morgan Hill's development processing services, the Consultant has attempted to clarify the facts and identify the source of the problem by reviewing relevant documentation and interviewing staff members who have knowledge of the project in question. Specific case studies are presented later in this report.

## **II. REVIEW OF 2002 STUDY RECOMMENDATIONS**

This section reviews Morgan Hill's progress in implementing recommendations contained in the 2002 study of the City's development processing services by MAXIMUS, Inc. The City Manager's office has reported periodically to the City Council on progress toward implementing the recommendations. The most recent status report was presented at the May 18, 2005 Council meeting.

The 2002 study made 39 specific recommendations for improving development processing in Morgan Hill. Of those, the May 2005 status report indicated that 27 recommendations had been implemented, while five had been deferred due to budget constraints and seven were in process. Of the seven items in process at that time, one more has been implemented and the others are still in process pending completion of other activities. The most important of those is the creation of a one-stop permit center. The one-stop center is intended to occupy the existing library building after completion of the new library, which is now under construction.

The City certainly has made a serious effort to implement the 2002 study recommendations. For the most part, we agree with the City's assessment of its progress in implementing individual recommendations. However, there are a few items listed as complete in the City's status report that have not been fully implemented or have not been addressed at all.

The following recommendations from the 2002 report appear to require further action. Each item is followed by a discussion of the current status of the recommendation. Item numbers are from the 2002 report.

**5.4 When the Tidemark system is operational in Planning, it should be used to alert the staff to processing deadlines and to systematically track the Division's performance in meeting review time targets for initial submittals and resubmittals for all projects. That information should be incorporated into monthly and annual reports.**

The City's status report indicates that implementation of this recommendation is "complete and ongoing." In fact, recent interviews with Planning staff revealed that the system is not yet configured to serve the purposes outlined in the 2002 study.

The vision described in the 2002 report was that the Tidemark system would be used to closely track projects and provide real time data on actual performance relative to adopted performance standards. In discussing this recommendation, the 2002 report said, "(t)he tentative agenda now used by planning to track projects under review should be replaced with a system that is easier to update and creates

a permanent record of all deadlines and actions related to each project.” At the time of this update, the Planning Division still uses the tentative agenda as its primary project management tool, and has not fully implemented the Tidemark system. Performance tracking reports are now prepared quarterly (not monthly), based on data assembled manually.

For financial reasons, the City did not acquire a Tidemark module specifically designed for Planning. The Tidemark module purchased for the Planning Division was designed to track building permits and related activities. In its present form it is not fully capable of tracking Planning Division development processing activities as recommended in the 2002 report. The City does not have in-house IT staff to maintain and upgrade the system, so the necessary upgrades are being done in part on a “time available” basis by the Planning Technician, who is also the Tidemark system administrator for Planning, and in part by a consultant. The in-house time available to do that work is constrained by the Planning Technician’s other duties, and money for IT consulting is limited. So, the upgrades needed to make the system fully functional in planning may require 3-4 months to complete. At present, all new projects are being logged into the system when applications are received. Once the upgrades are complete, the Planning Manager will require that all Planning Division review staff update current project data in the system regularly. Data on completed projects dating back to 2000 will then be entered into the system as time allows.

The Tidemark system has the potential to improve coordination, and process management among all of the departments and divisions involved in development review, but unless project data are updated routinely and everyone involved in the process has continuous access to the system, that potential will not be realized.

**5.5 The Planning Division should also track the number of resubmittals required for each project. If more than one resubmittal is required, the Planning Manager should review the case to determine whether staff comments were stated clearly and consistently.**

**9.4 The Engineering Division should also track the number of resubmittals required for each project. If more than one resubmittal is required, the Senior Engineer should review the case to determine whether staff comments were stated clearly and consistently.**

The May 2005 progress report indicates that the practice of tracking resubmittals in Planning and Engineering is in place. With respect to Planning, the Planning Manager reports that individual planners track resubmittals. However, the Planning Division, at present, does not track resubmittals systematically, and does not report performance data on resubmittals.



Engineering uses wall charts to log receipt and return dates for all submittals. That system makes it easy to see the number of submittals for a project. The Engineering Division does not compile or report performance data with respect to the number of resubmittals.

The purpose of tracking resubmittals is to flag projects that may be hung up in the review process and to identify processing issues that may lead to repeated resubmittals. The intent of the 2002 recommendation was that any project which is not ready for final approval by the third submittal (initial submittal plus two resubmittals) should be reviewed by a manager to ensure that the City's process is not the source of the problem. It also recommended that performance data on resubmittals be compiled and reported so that systemic problems could be identified.

A brief review of recent Engineering cases indicated that only about 10% of projects require more than three submittals. We recommend that both Planning and Engineering include a performance measure in the budget to address the percentage of projects requiring more than three submittals. We also recommend that, if a project is not ready for final approval by the third submittal, a meeting be scheduled with the applicant to examine the issues delaying approval.

**6.1 The new architectural and site design standards now under development should be made as definitive as possible to minimize the need for interpretation and provide clear direction to applicants, the Planning staff and the ARB.**

New architectural and design guidelines are not yet available. Completion and adoption of the design guidelines is now scheduled for June, 2007.

**8.2 The Planning Division should phase out the practice of maintaining multiple files for a single project and change to a single project file system.**

The status report indicates that projects are being filed under a single file number. That is not the case. It also indicates that the Tidemark system must be updated to fully implement this practice. We disagree. Currently, when a single project requires multiple approvals, such as a zoning amendment, tentative subdivision map, site review and a development agreement, a separate file is created for each application. Separate, unrelated project numbers are assigned and the files are stored in separate series, by application type. This system requires considerable duplication of file contents and provides no easy way of cross-referencing files. Tidemark has the capacity to cross reference multiple approvals related to a single project, a useful feature that is not yet enabled in Morgan Hill's system. But revising the project filing system need not depend on improvements to the Tidemark system.

This recommendation is certainly not one of the most important in the 2002 report, and the filing system probably has no negative effect on the processing of current projects. But retrieving old files with the existing system is inefficient, because files are not organized in a way that allows documents relating to a particular property to be easily located. Files are ordered chronologically by type of approval and cataloged by the street name and applicant's name. File labels do not include a street address because they are often created before an address has been assigned. Community Development is considering alternatives to the current filing system and expects to decide on a new system within the coming year. That system would be implemented and files reorganized in conjunction with the planned move to a new permit center in 2008 or 2009.

### *III. SUMMARY OF CUSTOMER INTERVIEWS*

#### *A. INTERVIEW PROCESS*

Customer interviews for this study were conducted during the week of April 10, 2006. The City provided the names of 35 customers, believed to represent a range of positive and negative opinions regarding development processing services in Morgan Hill. An interview guide was prepared by the consultant in conjunction with City departments involved in development processing.

The Consultant attempted to contact everyone on the interview list by e-mail with an invitation to schedule a face-to-face interview or a telephone interview. Ultimately, the Consultant interviewed all of those who responded to the invitation--a total of 16 individuals. The original intent of this exercise was to interview a preponderance of customers with negative opinions in an effort to highlight opportunities for improvement. However, it is difficult to classify the interviewees in those terms. Moreover, as it turned out, the actual mix of customers interviewed for this study was a function of which customers responded to the interview invitation. One might expect that those wishing to express negative views would be overrepresented in this sample, but the results of the interviews did not appear to bear that out.

The individuals interviewed covered a wide range of interests, including representatives of the Chamber of Commerce Economic Development Committee and the Morgan Hill Downtown Association, residential and commercial developers, business owners, real estate brokers, and architects.

Face-to-face interviews were scheduled at the Morgan Hill Community and Cultural Center on April 10 and 11, 2006. Phone interviews were scheduled throughout the week of April 10. This paper summarizes the results of those interviews. A list of prepared questions was used as a starting point for all of the interviews, but their relevance to a particular interview varied. Some interviewees preferred to focus on particular issues, so the topics covered from one interview to another were not necessarily consistent. As a result, it is not possible to prepare a statistical summary of the interview results. Key findings from the customer interviews are summarized below.

#### *B. SUMMARY OF INTERVIEW RESULTS*

One issue of particular concern to the City in this process is whether or not Morgan Hill is perceived as "business friendly," especially with respect to commercial and industrial development. That issue was raised in all of the interviews. This summary begins with a discussion of that question.

**Is Morgan Hill Perceived as Business-Friendly?** There is no simple answer to that question, but several customers who have been involved with Morgan Hill over time believe the perception of Morgan Hill as unfriendly to business was prevalent in the past, but is less common now and no longer reflects reality. One developer pointed out that such opinions can persist long after the situation has changed, and recounted a recent discussion with someone who alluded to a lack of sewer capacity in Morgan Hill, even though problem that was resolved around 1985. Other responses on that topic:

- Interviewees familiar with large commercial projects approved by the City recently expressed the opinion that the approval process was very smooth and believe the City goes all-out to accommodate economically important projects such as the Cochrane/101 Retail Center and Trader Joe's.
- Perceptions are much less positive regarding the City's handling of approvals for lower-profile projects. Some interviewees cited poor communication and coordination among departments, unreasonable conditions, and significant new requirements (and costs) added late in the process. Engineering was singled out for criticism by several individuals who believed they had experienced inconsistent interpretations and changing requirements. On the other hand several developers with long experience in Morgan Hill have nothing but praise for the staff.
- More than one person suggested that the City's Residential Development Control System (aka "Measure C") creates a negative impression of the City's attitude toward development generally, even though it has no direct effect on non-residential development. (The 2002 study noted that a very heavy staff workload during times when RDSC applications are being reviewed may delay processing of non-residential projects.)
- Some commercial developers noted that Morgan Hill's population is too small to support certain types of commercial development and were concerned that residential growth control indirectly limits non-residential development, including both commercial development and public facilities such as hospitals.
- Morgan Hill's impact fees were cited frequently as a negative factor for commercial development. High traffic impact fees, especially for restaurants, were specifically mentioned as a barrier to new business.
- There was some sentiment that, instead of simply putting out the welcome mat for development, the City should take a more active role in recruiting new businesses to Morgan Hill.

- The City Council and City Manager are generally seen as playing a positive role in creating favorable conditions for development in Morgan Hill.

If Morgan Hill was perceived as unfriendly to business in the past, and there is anecdotal evidence to that effect, major developers and others in a good position to assess the City's reputation in the larger business community believe any such perception is outdated and fading. Developers who have extensive experience working in the City have very high regard for the staff and believe the City Council has a positive attitude toward development in general. On the negative side, some of Morgan Hill's development regulations are seen by developers as excessively cumbersome. Those regulations are discussed below.

**Impact of Regulations.** It can be difficult to distinguish the role of development regulations per se as opposed to staff performance or the actions of appointed boards in producing customer dissatisfaction. Less experienced customers may not understand either the regulations or the process well enough to make that distinction. And because the impact of a regulation can depend on how it is interpreted, the two issues are often intertwined. The regulations considered most burdensome, even by experienced developers, are discussed below.

- Morgan Hill's Residential Development Control System (Measure C) imposes severe limitations on development and substantially increases the time and cost required to gain approval for residential development in Morgan Hill. Experienced customers understand that the substance of that voter-mandated process must be accepted as a given. However, one procedure associated with Measure C is considered unreasonably restrictive by developers interviewed for this study—that is the requirement that separate tentative subdivision maps must be submitted for each allotment of units in a project. The same concern was heard from developers in the 2002 study.
- The City of Morgan Hill has applied PUD zoning extensively to undeveloped commercial properties. PUD zoning objectively complicates approval of commercial projects. In some cases, the first developer to propose a project in a PUD has been required to prepare a development plan for the entire PUD and submit the plan for approval by the City. That process increases costs and delays approval for the first project in the PUD. Further, when subsequent projects are submitted by different property owners in the PUD, the original development plan for the PUD often must be amended, which results in increased costs and delays for those projects as well. The Consultant's observation is that PUD zoning was conceived to increase the flexibility of development regulations. Morgan Hill has used PUD zoning to hold development to a higher standard in

five areas of the City considered by the City Council to be gateways to the City. In many other cities, a PUD designation is applied as an overlay, and the property owner retains the right to develop according to the underlying zoning. Morgan Hill's PUD zone allows no development without an approved development plan, and approval of such plans is completely at the discretion of the City Council.

- Morgan Hill requires review by the Architectural and Site Review Board (ARB) for virtually all new development. This process unavoidably adds time, cost, and uncertainty to the approval process. Applicants interviewed for this study generally agree that the ARB has been sensitive to the effect of delays and has instituted practices, like subcommittee review, to speed the process. Later in this report, the Consultant recommends additional steps the City could consider to minimize the burden placed on development by architectural and site review.

This report is more concerned with commercial and industrial development than with residential development. Measure C has no direct effect on non-residential development, but, as noted above, it may contribute to the impression that Morgan Hill does not welcome development. The City, in conjunction with the Chamber of Commerce Economic Development Committee, has developed a list of "economic development inhibitors," including City regulations and policies that present obstacles to development. PUD zoning of commercial properties and some architectural and site review requirements are on that list, and the City is considering measures to mitigate some of the negative effects on development.

**Review Process and Staff Performance.** The development review process and staff performance in development review processing received mixed reviews in the customer interviews. Individuals involved with commercial or industrial projects considered economically important by the City expressed high praise for the staff and had few complaints about the development review process. Some interviewees noted that the City has worked very closely with developers of high-profile retail projects to ensure a smooth approval process. As noted above, however, less-experienced developers or others involved with some smaller or less economically significant projects perceived the process as difficult, unpredictable, frustrating, and expensive.

Of course development processing departments work in the context of numerous complex regulations, some of which are discussed above. It can be difficult for applicants, especially those less experienced in development, to distinguish between regulations, per se, and the role of staff who are responsible for interpreting and enforcing the regulations. That said, a number of customers interviewed for this study cited specific shortcomings in the performance of Morgan Hill's devel-

opment review departments. The most common complaints can be summarized as follows:

- Applicants don't receive clear, complete information on the City's procedures, approval requirements and/or costs
- The approval process (or some aspect of it) takes longer than necessary
- Departments/Divisions involved in development review don't communicate and coordinate effectively, leading to delays and confusion
- Approval requirements change and new conditions are added late in the process, requiring additional submittals and increasing costs

In our experience, very similar complaints arise in city after city, which illustrates the challenge involved in keeping customers happy as they navigate the complex approval process required to implement the voluminous, highly-technical development regulations that are typical of California cities today. It must also be recognized that applicants may be at fault for miscommunication and delays in processing if they do not provide adequate information about a project initially, or if they fail to make corrections in response to staff comments.

For the reasons discussed in the previous paragraph, it is difficult to reach definitive conclusions about staff performance in several of the areas listed above. Improvements in performance standards and performance measurement, as recommended in the 2002 study and later in this report, are needed to support judgments about timeliness, coordination and consistency. One thing is clear. Planning and Engineering need to provide much better written applicant information explaining the City's regulations, the approval process, development standards, customer service policies, and fees. Such materials should cover the approval process broadly and comprehensively, and help inexperienced applicants understand why each type of approval is required. That recommendation is discussed in more detail later in this report.

**Impact Fees.** Several customers, mostly those involved with commercial development, expressed a belief that the City's impact fees represent an obstacle to development, at least for certain types of commercial development.

Another potential issue related to impact fees is the method used by Morgan Hill to set traffic impact fees. That method tailors fees to specific projects, and involves some judgment as to the appropriate trip generation rate for specific types of projects. Some other cities, such as Gilroy, use average rates by land use category. Impact fee issues will be discussed in more detail later in this report.

### **C. CASE STUDIES**

In an effort to clarify some of the issues raised by customers in the interviews, the Consultant followed up on some specific cases where a customer was dissatisfied with some aspect of the City's development review process. The discussion of these cases is intended primarily to illustrate principles rather than as a critique of the handling of a specific project.

**Commercial Project.** In one interview, the developer of a small commercial project in Morgan Hill reported two things that appeared to reflect badly on the process and the staff: (1) that the need for a PUD plan was not made known for a year after the application was submitted, and (2) that the requirement for a traffic signal was imposed late in the review process, adding significantly to the cost of the project. Our review of the project files showed clearly that neither claim was accurate. The initial letter to the applicant deeming the application incomplete noted that a PUD plan would be required. And the traffic signal requirement was based on the environmental review completed early in the project. Also, when the Consultant discussed this project with Engineering staff, they pointed out that the developer will be reimbursed for the full cost of the traffic signal when the project is occupied and impact fees are paid by tenants. This is not to suggest that the developer was intentionally misleading. It is more likely, given the myriad details involved in the approval process, that the misunderstanding was a result of either faulty recollection or miscommunication with other members of the developer's project team. The point here is that complaints of this type are not necessarily based on accurate information.

In this case the record was clear with respect to when and how the conditions were imposed on the project. But this kind of miscommunication is a perfect illustration of why all decisions and directions provided to applicants must be in writing.

**Request for Information.** In another case, a developer submitted a letter requesting information from Planning on potential development of property near downtown Morgan Hill. In an interview for this study, the developer reported that the response from Planning was very negative and focused primarily on potential problems in developing the property. The Consultant reviewed the Planning Division's response and found it to be balanced and businesslike. The only aspect of the response that seemed negative was an indication that the Planning Division was unlikely to recommend rezoning of the property as desired by the developer. While that can be construed as negative, it is essential information that could spare the developer from an expensive, time-consuming, and futile effort to rezone the property. Obviously, judgments about the tone of the letter are personal, but the Consultant does not agree with the developer's characterization in this case.



**Church Expansion Project.** A project recently being processed for a conditional use permit came to the attention of the Consultant because the applicant approached the City Manager seeking relief from the cost of some off-site improvements recommended as conditions of approval by Engineering. This project involves expansion of an existing church building and the addition of a child care center. Engineering initially proposed that portions of the existing curb, gutter and sidewalk at the street frontage of the property be replaced, and that an eight foot width of the street pavement along that frontage be overlayed. The justification given for that requirement was that trenching for utilities would damage the curb, gutter, sidewalk and pavement, and that the proposed condition was reasonable to prevent excessive patching that would damage the integrity of the existing improvements. After a field review of the proposed conditions, the Public Works Director determined that some of the proposed conditions, including the requirement for a pavement overlay, were not justified.

How far the City may reasonably go in requiring off-site improvements as a condition of development approval is not always easy to resolve.

Chapter 12 of the Municipal Code requires that developers provide street improvements to city standards, including curb, gutter, sidewalks, street paving, street lights, street trees, drainage, signing and striping, traffic signals, utility undergrounding, and certain other improvements to undeveloped streets. The fact that street improvements already existed in this case complicates the application of the code to the project in question.

In this case, the judgment of the reviewing engineer, as reflected in the original conditions, was overruled by the Public Works Director when the conditions were challenged. The Consultant has no way of knowing whether the outcome would have been different if this project had been a commercial development instead of a church, or if the applicant's architect had been less experienced in dealing with the City.

Issues of interpretation arise in connection with many aspects of development processing, and honest differences of opinion are possible. But the Consultant's experience is that, when in doubt, development review staff tend to push costs onto the developer and see if anyone pushes back. That tendency is not unique to Morgan Hill. Of course applicants can challenge proposed conditions when the project comes before the City Council, the Planning Commission, or the Architectural and Site Review Board, but many don't do so for fear of delays, or because they don't believe they have a reasonable chance to prevail. Formal appeals are expensive, and they cause further delays in project approval. One developer interviewed for this study suggested that appeal fees be refunded for applicants who successfully appeal a decision. That idea is worth considering.

The Consultant's observation is that the City should provide applicants with a fair opportunity to question staff recommendations, beyond appealing to the person who made the recommendation in the first place. Given the relatively small size of the City's development processing organization, the responsibility for considering such requests should probably lie with the appropriate division head or department head.

Applicants should be notified of their right to request reconsideration and fully apprised of the procedure to be used. They should be advised that Business Assistance and Housing Services provides development ombudsman services and has extensive experience in working with development processing departments to improve communication and resolve issues that arise during project review. Measures recommended to improve applicant information are discussed in the next section of this report.

Staff should always be required to cite specific authority for their recommendations and show that the recommended condition or interpretation is appropriate to the specific project in question.

Another controversial aspect of this project was a significant difference between the initial fee estimate provided by Engineering and the much higher fees contained in a revised estimate. The initial estimate was based on the applicant's own very conservative estimate of the cost of off-site improvements. The estimated fees increased because more extensive off-site improvements were required. The Consultant's observation is that this is an example of a problem that might have been avoided with a pre-application meeting documented in writing.

## IV. GOALS AND OBJECTIVES

This section proposes goals and objectives to address a series of issues identified by the Consultant, most of which are discussed in previous sections.

### A. IMPROVING THE CITY'S IMAGE AS BUSINESS-FRIENDLY

**Findings.** Professional developers and other customers in a good position to assess Morgan Hill's reputation in the larger business community believe that whatever anti-business sentiment may have been associated with Morgan Hill in the past is mostly outdated and not justified by current conditions. Most customers with extensive experience in both Morgan Hill and other cities rate Morgan Hill's development processing staff as highly professional, and consider their experiences with the City Council and City Manager to be positive. However, some of Morgan Hill's development regulations are seen as excessively restrictive and/or unnecessarily cumbersome. Those regulations may contribute to some remaining negative perceptions of the City as a good place to do business. The issue of regulations is discussed separately, below.

**Goal.** Morgan Hill should take a more active role in defining its own image in the business community, rather than allowing uninformed opinions to go unchallenged.

**Objective.** Morgan Hill has plenty of recent commercial development success stories on which to capitalize. Those successes need to be publicized systematically through an organized public relations initiative. The City could hire a PR firm to work on that effort or organize an in-house staff PR project to prepare press releases and coordinate press interviews with supportive developers, architects, real estate brokers and the like. Two very useful references are: *Full-Frontal PR: Building Buzz About Your Business, Your Product, or You*, by Richard Larimer; and *How to Get Publicity: And Make the Most of It Once You've Got It*, by William Parkhurst. Both books are available from Amazon.com.

### B. RE-EVALUATING CERTAIN DEVELOPMENT REGULATIONS

**Findings.** Certain of Morgan Hill's regulations do create significant obstacles to development. Measure C is the prime example, but as a voter-approved ordinance, its requirements are not subject to easy revision. Most of the procedures established to comply with Measure C are also mandated, thus limiting opportunities to streamline the review process. One possible exception is the practice of requiring that separate tentative subdivision maps be submitted for each allocation of units under Measure C. That practice is based on an interpretation of Measure C. The Community Development Department and the City's Attorney's office are

considering whether that practice can be changed. Allowing a single tentative map to be filed for an entire project has the potential to cut staff workloads and reduce costs and processing time for the developer.

Another regulation worthy of reconsideration is the extensive use of PUD zoning on commercial properties in Morgan Hill. Other mechanisms might serve the same purpose without imposing as much of a burden on development. The Community Development Department plans to review the City's PUD District regulations, and the manner in which PUD zoning is applied to commercial property in the City.

The third type of regulation often criticized in discussions with customers is the architectural and site review process. Virtually all development in Morgan Hill must be approved by the Architectural and Site Review Board (ARB). Although the site review process is reported to be running smoothly now, it still adds a minimum of 30 days to the review time for most projects.

**Goal.** The City should consider whether the regulations cited above are helping the City achieve its current development objectives and decide whether any changes are warranted. Measure C is a given, but there may be opportunities to streamline the procedures used to implement it.

**Objective – Tentative Subdivision Maps.** Review the language of Measure C to determine whether it actually prohibits the approval of tentative subdivision maps for unallocated units. If not, decide whether to allow a single tentative map to be filed for each project.

**Objective – Commercial PUD Zoning.** Consider the implications of the City's use of PUD zoning on commercial properties. Determine whether that policy should be modified and whether other zoning tools, such as conditional use permits, could serve the same purpose more efficiently. Also, consider whether the City should routinely prepare development plans for City-initiated PUDs, rather than requiring developers to prepare the plans.

**Objective – Administrative Site Review.** Consider whether site and architectural review for some projects could be done administratively.

**Objective – Role of ARB.** Consider whether the ARB should become a recommending body rather than an approving body for those projects that also require Planning Commission or City Council approval, potentially reducing the time required to approve some projects.

### **C. IMPROVING CUSTOMER SERVICE**

**Findings.** A common complaint among applicants is that they do not receive accurate information from staff about project requirements, and that new requirements pop up late in the approval process. The reality is that changes in project requirements often reflect changes in the project information provided to the City, but these complaints could be reduced by ensuring that complete information is provided to applicants early in the process, and that all information exchanged between customers and staff is systematically documented in writing.

The most obvious customer service deficiency identified by the Consultant is the lack of a comprehensive, well-organized applicant guide to the development approval process. Inexperienced customers have the greatest need for that material, but even customers who have worked with the City before could benefit from improved applicant information, and the process of compiling this information could help give staff a better understanding of difficulties faced by customers in development processing.

Another key customer service issue that needs to be addressed is providing customers with an accessible and effective means of disputing staff recommendations before the application goes to a public hearing. Inexperienced customers, in particular, often don't understand their options, or don't feel they have access to someone with the authority to address their concerns. Applicant assistance in such situations is currently available from Business Assistance and Housing Services to serve as a "business ombudsman" by clarifying issues, troubleshooting disagreements, coordinating meetings, facilitating reviews and mediating disputes between applicants and staff. Applicants have not always availed themselves of those services and development processing staff should refer applicants to BAHS in cases where a dispute arises. The ideal is that applicants should not feel that they need to call the City Manager or a City Council member to get a fair hearing.

**Goal.** The City should provide more complete and user-friendly information to applicants and potential applicants, create more effective procedures to provide an early assessment of project requirements, and provide procedures for applicants to contest staff recommendations prior to a public hearing. Completion of a one-stop permit center is in the planning stage, and should also remain a high priority.

**Objective – Written Customer Service Policies.** Applicants should routinely be informed in writing of the City's customer service policies for development processing, and their rights and responsibilities in the development review process. Applicants should be notified of the timelines imposed by the Permit Streamlining Act, as well as the City's commitment to meet certain timelines, to identify all re-

quirements promptly, and to impose conditions only when there is clear authority and when the requirement is specifically justified for the project in question. Applicants should also be notified that any decision by staff must be made in writing and that oral understandings should not be relied on. Finally, the City should outline the procedure by which an applicant may contest staff recommendations prior to a public hearing by petitioning someone with the authority to alter the recommendation. The Planning Division currently distributes a letter to applicants offering development processing assistance and other services from the Business Assistance and Housing Services Department. Those services are a useful complement to, but not a substitute for, a well-defined dispute-resolution process within the development processing departments.

**Objective – Applicant Information.** Inexperienced applicants, can find it difficult to understand why the review process can be so complicated, time-consuming, and expensive for what initially seemed like a simple project. An applicant may come to City Hall seeking a building permit and end up dealing not only with Building, but with Fire, Planning, and Engineering. Even a relatively small project may require a conditional use permit (with a Planning Commission Hearing) and “site review” with an ARB hearing. Each of these approvals has a fee attached, and once the project is approved, impact fees may be imposed.

All departments and divisions involved in development review should collaborate to create a comprehensive guide to the development review process covering application requirements, processing procedures, regulations, standards, timelines (including the Permit Streamlining Act time limits), fees, department contacts, and the customer service policies discussed above. The guide should incorporate information from all departments and divisions involved in development review. It should be presented as much as possible in non-technical language and should include illustrations, flow charts, and/or other graphics where needed to make the material understandable to the lay public. A printed version of the guide should be made available to potential applicants, and an electronic version should be posted on the City’s website. In addition to a general applicant guide, departments should have checklists that can be used to identify specific project requirements for applicants, either at the counter or as part of a pre-application meeting. Planning currently has checklists for specific project types. (See additional discussion in connection with pre-application assessment, below).

Obviously, it is in the interest of all concerned for the City to provide applicants with all of the information they need to be successful in getting a project approved, or to make a “no-go” decision at the earliest possible stage of the process.

**Objective – Pre-Application Assessment.** The pre-application assessment of a new project should be a two step process. At the initial contact with a potential

applicant, counter staff should complete a form summarizing key characteristics of the project, as described by the applicant, and a checklist of the steps necessary for approval. That form, with appropriate disclaimers, should identify the types of approvals required (e.g., zoning amendment, CUP, site review) and refer to material in the applicant guide explaining application requirements, timelines, fees, etc. A copy of the form should be kept on file and included in the project file if and when an application is submitted. The second step, not necessary for every project, would be a pre-application meeting with appropriate department representatives to discuss the project in more detail. The City currently offers formal pre-application review, but it is not used routinely because of the fees involved. BAHS assists applicants to obtain preliminary information on project requirements as a way to identify potential issues and facilitate early decision-making. However, the comments provided in such informal reviews must be qualified because preliminary plans are subject to change. The City should consider reducing fees for pre-application reviews to encourage detailed discussions with applicants at an early stage. One possibility would be to add pre-application reviews to the agenda of the Development Review Committee (DRC). To minimize the burden of paperwork, the City should consider using pre-printed forms or checklists to document any understandings reached in such discussions, and the assumptions on which they are based.

**Objective – Customer Feedback.** The Consultant always recommends that development processing organizations seek feedback from customers. In Morgan Hill, the Planning Division solicits comments from applicants by including a customer feedback card with a letter confirming approval of a project. According to a summary provided by the Planning Division, 22 applicants have completed and returned the questionnaire over the last 3 ½ years, with more than 90% indicating they were “very pleased” or “pleased” with the service they received from the Division. All 22 indicated that the staff was courteous and professional. None ranked their service as less than satisfactory. Comments were overwhelmingly positive, with only a few suggestions for improving service. Those responses indicate a high level of customer satisfaction with the Planning Division. The mix of responses may be colored by the fact that the feedback card is not sent to the relatively few applicants whose projects are not approved.

The low response rate is consistent with the Consultant’s experience in doing mail-out surveys. Most customers don’t bother to return such questionnaires. Even so, the program is worth continuing and should be expanded to include all applicants and other development processing functions—preferably in a single questionnaire. The City should consider addressing the feedback forms to BAHS, which can provide independent review of the responses. The City may also want to explore the use of email or internet technology for customer responses.

**Objective – One Stop Permit Center.** The City intends to develop a one-stop permit center in the existing library building after the new library is completed. That is still an important customer service priority. A one-stop center housing all departments involved in the review process will improve inter-departmental communication and increase customer convenience.

#### ***D. IMPROVING PROCESS MANAGEMENT***

**Findings.** Key recommendations of the 2002 study regarding management of the development approval process included upgraded performance standards and performance measurement, and extension of the Tidemark system to Planning and Engineering to improve data collection and performance tracking. Since that time, Planning has acquired the Tidemark system, but Engineering has not. The theoretical advantage of a system like Tidemark is that it can integrate information from all aspects of the development approval process to improve inter-disciplinary coordination and capture a great deal of process management information. The Tidemark system is functioning well in the Building Division. However, as discussed previously, the system is not fully operational in Planning because it is not yet configured in a way that allows key activities to be tracked. The Planning Division expects to upgrade the system's capabilities within the next 3-4 months and will then require that all staff update the status of projects on a regular basis.

Planning, Building and Engineering are now reporting some limited performance data in the budget, but for the most part they are simple measures of workload volume that say nothing about whether performance standards are being met. Each of those Divisions reports only one metric related to a performance standard. Building reports on performance for inspections but not for plan checks. Planning reports on timely completion of site reviews, but not other types of projects. Engineering reports on-time completion of plan checks. In most cases, those metrics are not tallied often enough to allow much opportunity for managers to affect performance, and given the minimal detail reported and the lack of systematic data collection, the reliability of the information is hard to evaluate. In the absence of a comprehensive, computerized tracking system, the City is unlikely to capture the data needed to report meaningful performance measures.

**Goal.** The City needs to determine how much value it places on performance measurement and, if appropriate implement a workable system to track and report the relevant metrics.

**Objective – Tidemark System.** Implementation of the Tidemark system was a key aspect of the performance tracking system envisioned in the 2002 study. Getting the system in place and operating is the first requirement. The Building Division has been using the Tidemark system for several years. Planning is still con-



figuring its module to incorporate key activities, and Engineering has not yet acquired the system. At any stage in the implementation of the system, its usefulness will depend on the discipline of staff in updating project data routinely.

If Planning successfully implements the Tidemark system, The Consultant recommends that it be expanded to include Engineering. Otherwise the City should consider whether a simpler system would be more effective in tracking projects through the approval process in Planning and Engineering. That decision should give careful consideration to the ability and willingness of the affected departments/divisions to work with whatever system is proposed.

**Objective – Performance Standards and Performance Measurement.** The most basic performance metric for development review is elapsed time for each processing cycle. Ideally, each submittal on a project should be logged in and out, and every significant activity related to a project should be logged as well. To be useful, a tracking system should calculate the elapsed time for each cycle in the process and produce statistics at least monthly so managers can use the information effectively. Of course performance measurement has little meaning without performance standards, so concise performance standards should be adopted for each type of application.

Lumping all types of projects together, the current practice, reduces the value of performance measures. Projects should be tracked separately by type and size. We also recommend tracking the number of submittals on each project so a project can be flagged for special attention if it is not ready for approval by the third submittal.

## *E. IMPACT FEES*

**Findings.** The City's impact fees for commercial projects were cited as a concern by some customers interviewed for this study. Traffic impact fees can be especially problematic for commercial projects, because they are based on trip generation rates and commercial development generates large numbers of vehicle trips. Higher trip generation rates result in higher fees relative to other uses.

At present, Morgan Hill calculates impact fees for non-residential development projects on a project-specific basis. In the case of traffic impact fees, the fees are based on the specific trip generation characteristics of building occupants, and can result in very large differences in fees for different types of development. One effect of that approach is that, in cases where tenants of a new building are not known, impact fees cannot be assessed until permits for tenant improvements are issued. Tying impact fees to tenant improvements can lead to unpleasant surprises for tenants who may not be aware they are responsible for paying those fees. In

some cases, additional impact fees may be charged when tenants change, if the change results in a more intensive use.

Some other cities, including Gilroy, use a different approach. Those cities establish impact fees for broad categories of development rather than for individual development types. Impact fees are based on a typical trip generation rate for the category. Depending on how land use categories are defined, all commercial development except offices and hotels/motels might pay the same impact fee per square foot. That approach recognizes the fact that uses of commercial buildings can change over time. It eliminates large discrepancies in impact fees among different commercial uses and makes it unnecessary to the City to adjust fees when tenants change. It also makes impact fees more predictable for developers.

Another issue related to impact fees is the City's current practice that only Engineering can provide information about impact fees to applicants. While there are good reasons why the final tabulation and collection of impact fees is done by Engineering, a schedule of impact fees for different types of development should be made available to applicants at the Planning and Building counters and included in the applicant information package. Where applicable, information on school impact fees should also be provided. Even where the final impact fees require adjustments (e.g., to include credits for replacement of existing development), providing a standard fee schedule allows applicants to understand the order of magnitude of impact fees for a project early in the process.

**Goal.** The City should review its approach to charging impact fees, evaluate their competitiveness with other cities in the region, and determine whether changes are needed to further Morgan Hill's broader development goals. Impact fee schedules should be readily available to applicants.

**Objective – Impact Fee Comparison.** A 2004-05 study of impact fees for South Bay cities is available and the Engineering Division compares Morgan Hill's impact fees with Gilroy's fees every two years. Such comparisons can provide a useful perspective on impact fees in nearby cities, but should be approached with caution. It is often difficult to obtain a clear apples-to-apples comparison because of the varying fee structures used from one city to another. In addition, different cities have different public improvement needs because of differences in existing conditions and development patterns.

**Objective – Mitigating the Effect of Impact Fees on Development.** The following approaches may be considered to mitigate the effect of impact fees on development. (1) Establish impact fees for broad categories of non-residential development instead of setting fees on a project-by-project basis. That approach will tend to eliminate the extremes in impact fee assessments. The Consultant recom-

mends that calculation of project-specific fees be retained as an option to deal with special cases where a particular project clearly does not fit within any defined category; (2) Allow payment of impact fees for non-residential development to be deferred until later in the development process, such as when the Certificate of Occupancy is issued. (The Mitigation Fee Act prohibits collection of most residential impact fees until that time.)

**Objective – Impact Fee Information.** Standard impact fee schedules should be readily available to all applicants at the counter and on the City's website, both separately and as part of an applicant guide.

**Objective – Fee Estimates.** Engineering should ensure that fee estimates provided to applicants are self explanatory and user-friendly. Project fee estimates prepared by Engineering may be confusing to some applicants. Those estimates are simply copies of the worksheets used by Engineering to calculate both processing fees and impact fees. The fee estimates should be reviewed to ensure that the format is user-friendly and that explanatory notes are included where appropriate. One problem with the existing fee estimate forms is that the same form is used for all types of development. Fee estimates could be made simpler and more user-friendly by designing a different fee form for each type of development. That way, the finished form could be much shorter and would not contain a lot of confusing blank spaces and extraneous information that doesn't apply to the project at hand.

## *F. PROCESSING FEES*

**Findings.** Processing fees charged by the City are based on studies that estimate the cost of the services involved, including direct costs as well as a share of departmental and Citywide overhead. Fees needed to cover the full cost of those services can impose a significant burden on smaller projects, and charging full cost may be counterproductive in some cases. For example, charging the full cost of a pre-application meeting may discourage applicants from scheduling such meetings which could make the process run smoother and reduce costs in other aspects of the process.

**Goal.** The City should seek to identify and re-evaluate processing fees that, while justified to recover the City's costs, may be excessive relative to the benefit received by the applicant or serve as a deterrent to behavior the City wants to encourage among applicants.

**Objective – Pre-application Meeting Fees.** The City should consider the potential advantages of reducing or eliminating fees for pre-application meetings so that applicants are encouraged to discuss projects with staff prior to submitting an application.

**Objective – Other Processing Fees.** The City should review the processing fee schedule to identify other types of fees for which cost-recovery calculations may have produced fees that do not align with the overall interests of the City or the benefits provided to applicants.

## V. ACTION PLAN

The action plan outlined in the following table is intended only as a starting point for the City Council and staff as they consider implementation of recommendations contained in this report. Timing and cost are not addressed here, and will be considered as the City develops a detailed plan to address the Consultant's recommendations.

| No. | Item  | Responsibility  |
|-----|---|---|
| 1   | Undertake public relations initiative   | City Manager/BAHS   |
| 2   | Consider whether Measure C allows filing of one tentative subdivision map for an entire project         | Community Development Director/City Attorney                            |
| 3   | Reconsider use of PUD zoning for commercial properties  | City Council  |
| 4   | Consider administrative site review for some types of projects  | City Council  |
| 5   | Reconsider role of ARB as an approving body   | City Council  |
| 6   | Create customer guide to the development review process   | Community Development/ Planning/ Building/Public Works/Engineering/BAHS |
| 7   | Adopt procedures and forms for pre-application assessment by Planning counter staff                     | Planning  |
| 8   | Consider changes, including fee reduction, to encourage applicants to schedule pre-application meetings | Community Development/ Planning/ Building/Public Works/Engineering/BAHS |
| 9   | Develop written customer service policies   | Community Development/ Planning/ Building/Public Works/Engineering      |

|    |  |   |
|----|--|---|
| 10 | Adopt procedures for reviewing and acting on customer feedback   | Community Development/<br>Planning/ Building/Public<br>Works/Engineering/BAHS             |
| 11 | Upgrade Tidemark to fit the needs of Planning  | Community Develop-<br>ment/Planning   |
| 12 | Adopt and implement policies on performance standards and performance measurement                                | Community Development/<br>Planning/ Building/Public<br>Works/Engineering                  |
| 13 | Consider changes in the method used to set project-specific impact fees  | City Manager/Engineering/<br>BAHS   |
| 14 | Make impact fee schedules readily available to applicants  | Engineering/Planning  |
| 15 | Make fee estimates self-explanatory and user-friendly  | Engineering/BAHS  |
| 16 | Review processing fees to identify those where full cost recovery may not be in the overall interest of the City | Community Development/<br>Planning/ Building/Public<br>Works/Engineering/Finance/<br>BAHS |



## ***CITY COUNCIL STAFF REPORT***

***MEETING DATE: August 23, 2006***

### **UPDATE ON OLIN PERCHLORATE CONTAMINATION AND PRESENTATION TO RWQCB AT THEIR 9/7/06 MEETING**

**RECOMMENDED ACTION(S):** That City Council consider the staff update and authorize the City Manager to make a presentation to the RWQCB at their 9/7/06 meeting in Monterey, urging the Board to hold Olin accountable for the northeast contamination.

**EXECUTIVE SUMMARY:** There has been substantial activity in the last few months regarding Olin's contamination of our groundwater basin and as we did at the Regional Water Quality Control Board (RWQCB) meeting on 5/12/06, we plan to make another presentation before the RWQCB at their 9/7/06 meeting in Monterey. The two biggest issues to Morgan Hill at this time are: 1) our continuing request to the RWQCB that they name Olin as a discharger relative to the perchlorate contamination to the northeast of the Olin site and 2) to point out that Olin's 6/30/06 Llagas Sub-basin Cleanup Feasibility Study falls far short of the mark established in both the CAO issued for this particular contamination as well as the requirements of State Law.

The City, by way of our special technical consultant Komex, has sent in several letters to the RWQCB staff in the last month regarding our position on various work products received from Olin. Attached for Council information are those letters which present the City's concerns regarding 1) the 5/12/06 RWQCB hearing, 2) a review of Olin's 6/30/06 Llagas Basin Cleanup Feasibility Study Report, and 3) our comments regarding Olin's 2<sup>nd</sup> Quarter 2006 Monitoring Report. In all cases, as noted clearly in our letters, we find Olin's work substantially less than that required by the Regional Board.

The Perchlorate Work Group (PWG) made up of the Cities of Gilroy and Morgan Hill, the County of Santa Clara, and the Santa Clara Valley Water District (SCVWD), will also report to the Regional Board that Olin's Cleanup Feasibility Study Report is missing the mark and the PWG as represented by Rosemary Kamei, SCVWD Board Member, will make a presentation at the 9/7/06 meeting.

With the Council's direction, City staff will make another presentation to the Regional Board as we did at their meeting of 5/12/06 providing further documentation of the clear perchlorate contamination emanating from the Olin site in the northeast direction, and we will again be requesting that the Regional Board determine that Olin is the discharger and either issue a new CAO for the northeast contamination or amend the existing CAO to include the northeast contamination.

**FISCAL IMPACT:** The City continues to expend substantial public funds protecting our water customers from perchlorate contamination and we will continue to try to recover the funds expended for clean-up from the Olin Corporation.

**Agenda Item # 31**

**Prepared By:**

**Public Works Director**

**Submitted By:**

**City Manager**